

Security Strengthening Project (MNS:SSP)

IDB - JA-L1074 (LC # 4400/OC-JA)
Shops 31&32 Kingston Mall
Kingston, Jamaica



Ministry of National
Security

TOR for Audit of Financial Statements

Date

January 25, 2019

Services Performed For:

Security Strengthening Project (MNS:SSP)
IDB - JA-L1074 (LC # 4400/OC-JA)
Shops 31&32 Kingston Mall
Kingston, Jamaica

Background

The Government of Jamaica has established a Security Strengthening Project (SSP), funded by a Loan from the Inter American Bank (IADB), the main objective of which is to contribute to an increase in the conviction rate for murders in Jamaica. The strategy to achieve the main objective will be the “specific objectives”:

- (i) To assist in the reduction of the rate of murders in the country;
- (ii) To increase the proportion of police investigations of murders that result in prosecution;

And

- (iii) The training of police officers in the use of technology in crime fighting.

The MNS has established the Project office (the Project Executing Unit) unit to plan and manage the execution.

The Security Strengthening Project has three (3) components: (i) **Component 1**. Violent crime prevention and management; (ii) **Component 2** - Improving investigative capabilities for homicides; (iii) **Component 3** - Change Management & Communications.

The Project components comprise activities to benefit and involve the participation of the Ministry of National Security and the following entities within its portfolio:

- The Jamaica Constabulary Force (JCF)
- The Department of Correctional Services (DCS)
- The Firearm Licensing Authority (FLA)
- Passport, Immigration, Citizenship Agency (PICA)
- The Institute of Forensic Science and Legal Medicine (IFSLM)
- The Private Security Regulatory Authority (PSRA)

Additional entities outside the portfolio of the Ministry of National Security includes;

- The National Works Agency (NWA)
- eGov Jamaica Limited (eGov)

Executing Agency

The Ministry of National Security (MNS) is the Executing Agency (EA), accountable for the planning and execution of the Project, and its mission is to contribute towards creating a safe and secure Jamaica by the effective enforcement of law, order and maintenance of secure borders. The current MNS mandate is to: (i) facilitate the maintenance of law and order; (ii) protect Jamaica against internal and external threats; (iii) ensure the safety of Jamaica's borders; and (iv) punish and rehabilitate offenders.

Purpose of this Document

The purpose of this document is to present the terms of reference (TOR) for the external audits of the Security Strengthening Project (SSP). This TOR contains general guidelines according to the requirements of the project document and its annexes and the loan contract 4400/OC-JA as well.

IDB policies require the MNS to present the financial statements of the SSP, duly audited by an independent auditor, previously accepted by the Bank.

The audit will be performed according to IDB external audit requirements, outlined in the guide for Financial Reports and External Audits for Operations financed by the Inter-American Development Bank, and on the International Standards on Auditing (ISA) published by the International Federation of Accountants (IFAC).

IDB considers the auditor's opinion an important part of the project execution follow-up and monitoring process, because it helps to assure that operation resources are administered and utilized according to the terms and conditions approved in the corresponding financing contract no. 4400/OC-JA.

Objective

The objective of the audit engagement is for the Auditor¹ to:

- (i) express an opinion (or disclaim an opinion, if applicable²) as to whether the Financial Statements were prepared, in all material respects, in compliance with the requirements of the applicable financial reporting framework³;

and

- (ii) provide information related to the evaluation of the internal control system, which will be performed within the scope provided in the International Standards for Auditing.

Scope of Work

The IDB and MNS requires an Annual Audit for the Security Strengthening Project (SSP) to be conducted for:

Financial Year	To Commence on or before	Due date for completion
2018/2019	May 6, 2019	June 24, 2019
2019/2020	May 4, 2020	June 23, 2020
2020/2021	May 5, 2021	June 22, 2021

Financial statements of the Project

The Project's financial statements include: 1) The Statement of Cumulative Investments, 2) the Statement of Cash Received and Disbursements Made during the period to be audited (both presented in a comparative manner with the audited financial statements of the previous period); and the 3) Notes to the financial statements, also presented in a comparative manner, which are an integral part of such statements, and should include, among others, a summary of significant accounting policies and standards, accounting reconciliations, and other relevant information or disclosures that the Management determines is necessary, and that should be part of the Financial Statements.

¹ The term "Auditor" refers to an Independent Auditing Firm or a Supreme Audit Institution.

² ISA 705 (revised), modifications to the opinion in the independent auditor's report.

³ This framework could be the Internal Public Sector Accounting Standards (NICSP/IPSAS) or another one according the local applicable legislation.

Responsibility in the preparation of the special purpose financial statements

Management⁴ is responsible for the preparation and the presentation of the Financial Statements mentioned in section 4 above, as well as the notes to the Project's Financial Statements and related reconciliations, if applicable. These must be prepared based on the requirements established in the contractual clause 5.02 of the Loan Contract No. 4400/OC-JA and in the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. In addition, it is responsible for establishing internal controls determined necessary to allow the preparation of financial statements that are free from material misstatements due to error or fraud or error.

Following ISA 580 "Written Representations", the Management shall provide the External Auditor with a written declaration (Letter of Representation) that expresses, among other aspects: a) that it has complied with the applicable framework for preparing financial information; b) that it has provided the Auditors with all relevant information and access to it, in accordance with the terms of reference for the audit engagement; c) that all transactions have been recorded; d) that the provisions concerning the Financial Management Guide for Projects Financed by IDB and Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB, have been followed.

Audit Reports

The Auditor is required to issue the following reports:

- i. **Independent auditors' report on the financial statements.** This contains an opinion on whether the statements have been prepared, in all material aspects, in compliance with the applicable financial information framework and with the requirements established in the contractual clause 5.02 of the Loan Contract /Letter of Agreement No. 4400/CO-JA. The report is be prepared by the Auditor in accordance with the requirements established in ISA 800 (revised). **(See model in Appendix A⁵)**
- ii. **Internal Control Report.** In this report, also known as the Management Letter (not to be confused with the Management Representation Letter), the Auditor provides to the highest level of authority of the Borrower and/or Ministry of National Security, information related to the evaluation of the internal control system, as carried out within the scope provided in the International Standards on Auditing applicable to the review of the financial statements. In this report, he will also describe the main observations arising from the evaluation, as well as any other findings that arose during the course of the audit.

The Bank requires that the Auditor's report includes recommendations on the following items:

⁴ The term "Management" refers to the "Project Management or Coordination levels"

⁵ The report must be prepared in accordance with ISA 800. The suggested model in Appendix A should be considered as a reference.

- a) Comments and findings related to the accounting records, and the control processes reviewed during the course of the audit.
- b) Deficiencies and material weakness in the controls and systems.
- c) Deviations in the application of accounting principles.
- d) Non-compliance with terms and conditions stated in the Loan Contract /Letter of Agreement.
- e) Expenses considered ineligible and that have been paid from the designated account or claimed by the Bank for reimbursement.
- f) Expenses that do not comply with the tax legislation or other applicable laws in the country.
- g) Issues that drew the Auditor's attention during the conduct of the audit and which could have a significant impact on the project's execution.
- h) Status of compliance with audit recommendations identified in previous periods. The auditor should only include the recommendations that are pending or partially implemented.
- i) A risk assessment of the audit findings, including comments from management.

Intended users of the Report, limitation of use, and distribution

The Auditor's Report should mention that the Financial Statements are prepared by the Management to assist the Project in comply with the requirements established in the Loan Contract / Letter of Agreement No. 4400/OC-JA and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. As a result, the financial statements may not be suitable for other purposes. The Auditor's Report on the financial statements and the Internal Control Report, which are presented separately, are only intended for the Executing Unit/Coordinator (or equivalent) of the Project and the IDB.

Two hard copies, both Auditor's Reports on the financial statements and the Internal Control Report, as well as the version in electronic format, must be submitted by the Auditor to the Borrower and/or to the Ministry of National Security.

Notwithstanding the above, and in accordance with the IDB's Access to Information Policy, the Audit Reports for the Financial Statements of Projects received by the Bank will be classified as public documents⁶.

Deadline for the submission of the audit report

The audit report must be received by the Ministry of National Security, at the latest, on the date agreed in the respective agreement.

⁶ The publication of EFA is applicable to approved projects, starting January 1, 2011.

Availability of the Information

The Borrower and/or the Ministry of National Security will provide the Auditor unlimited access to all the information, records and the clarifications deemed necessary to conduct and facilitate the audit engagement, including: legal documents, the Project's preparation and supervision reports, the review and investigation reports, correspondence and credit account information. The Auditor must also request in writing, the confirmation of the amounts disbursed and the balances available as per the Bank's records.

In addition, as part of the Auditor's work planning process, he must have access to and understand the basic documents related to the operation. These are, amongst others:

- a) Loan Contract or Technical Cooperation Agreements.
- b) Policies for the Procurement of Goods and Works financed by IDB and policies for selecting and contracting consulting services financed with the resources of the Bank or with local counterpart resources;
- c) Risk Matrix and mitigation actions;
- d) Financial Management Guide for Projects Financed by the IDB (OP-273-6);
- e) Audited Financial Reports and External Audit Management Handbook for Operations financed by the IDB;
- f) IDB Project Disbursement Handbook;
- g) Execution and fiduciary arrangements (appendix of the loan proposal) and the Operations Manual.
- h) Progress Monitoring Report (PMR).
- i) Audit report from the previous period (in cases when there is a change of auditors).
- j) Reconciliation of the amounts disbursed and justified as per the records of the project with those of the Bank, including explanations of the differences (where relevant); as well as, the reconciliation of the project's special account.

Other responsibilities of the External Auditors

Quality of the work⁷:

1. The Engagement Partner should be a member of a Firm subject to the International Standard for Quality Control (ISQC 1), or other professional and regulatory standards related to the responsibility of maintaining a quality control system, and which would be at least equivalent to the Standard NICC 1.
2. The International Standard ISQC 1 requires that the Audit Firm establish policies and procedures for the acceptance and continuance of client relationship and specific engagements designed to provide the Firm with a reasonable assurance that it will only undertake or will continue with the relationships and engagements for which the Firm is competent and has the capabilities, including time and resources to do so. Therefore, it

⁷ This is only related to the External Auditor. In case of doubt as to the application of this statement, The Audit Firm could request clarification to the IDB' Financial Management Specialist.

shall be responsible for assigning the necessary qualified professional staff to the audit engagement: in order to deliver its reports within the required periods and with the quality expected.

Access to working papers:

1. The Auditor is committed to make available and allow the examination by IDB's staff or their designate, of all working papers (physical or by audit software) and other documents related to the audit engagement subject to these terms of reference.
2. To facilitate further clarifications required by the Bank, the Auditor should ensure that: i) the observations/findings, conclusions and recommendations included in the reports are duly supported in the working papers by sufficient, relevant, and appropriate audit evidence; ii) there is adequate cross-reference between the reports and the corresponding work papers; iii) the documentation is filed; and iv) he has prepared and documented sufficient and appropriate evidence on the risk assessment required by ISA 315 for the planning and execution of tests.
3. Bank staff may contact the auditors directly to request additional information related to the audit engagement subject to these terms of reference. The Firm must respond to these requests in a timely manner.

Methodology and Standards

The Auditor is expected to use accepted and proven methodologies for carrying out the assignment. The Auditor should prepare a detailed methodology (approach) and work plan indicating how the objectives of the assignment shall be achieved.

It is advisable that the Auditor conducts an entrance, work plan review and exit meeting with members of the Ministry of National Security and with the Bank's Project team, or when deemed necessary, in order to discuss matters related to the audit engagement.

Requests for information, documents or support must be submitted by email and must be accompanied by a log of ALL requests which tracks the date of the request and the date received. The log must be maintained by the audit team and must be updated and shared weekly for the duration of the project. Second requests or requests for additional clarification must be logged separately with the appropriate references to the initial request.

Requests for meetings, discussions and working sessions must be made by email and must be accompanied by a meeting request for the agreed date and time. The meeting request must include, in the body of the email request, the following:

- Objective of the meeting
- Who is to attend (and who is optional)
- Agenda (where appropriate)
- Preparation needed

Standards

The audit will be conducted in accordance with International Standards on Auditing⁸. These standards require that the Auditor comply with the ethical requirements of independence and quality control; in addition, the Auditor must plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatements. The audit should also include an assessment of management's disclosures related to critical accounting policies obtaining sufficient appropriate audit evidence to provide a basis for his/her opinion, as well as the evaluation of the overall presentation of the Financial Statements.

It is expected that the Auditor pays attention to the following International Standards on Auditing:

- ISA 240 “the Auditor’s Responsibilities relating to fraud in an Audit of Financial Statements”. The auditor must identify and assess the risks of material misstatement in the Financial Statements due to fraud and obtain sufficient and appropriate audit evidence in relation to these risks, through the design and implementation of appropriate responses.
- ISA 250 “Consideration of Laws and Regulations in an Audit of Financial Statements”. The Auditor must recognize that the non-compliance of the Entity with the laws and regulations may materially impact the Financial Statements in designing and implementing audit procedures and in assessing and communicating the results thereof;
- ISA 260 “Communication with those charged with Governance”. The Auditor is required to report to the governing body of the institution on his responsibilities in relation to the audit of the financial statements, as well as a general description of the scope and timing; and report, in due time, on significant and relevant facts observed.
- ISA 315 “Identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity’s internal control”.
- ISA 330 “The Auditor’s Responses to Assessed Risks”. The Auditor should obtain sufficient appropriate audit evidence on the risks assessed related to material misstatement through the design and implementation of appropriate responses to such risks.
- ISA 510 “Initial Audit Engagements – Opening Balances”: In the case of a first audit engagement by the auditing firm, the auditor should obtain sufficient and appropriate audit evidence on whether the opening balances contain errors that may materially impact the financial statements of the period to be audited within the framework of the Project.

⁸ Although the implementation of ISA/ISA is promoted, the auditor’s work may be placed in the context of INTOSAI (ISSAIs) Auditing Standards; or the national norms, standards, and practices compatible with the International Standards for Auditing.

To verify the fulfillment of fiduciary agreements included in the loan contract, and the operational manual, the Auditor, under the ISAs framework, must perform tests and/or procedures⁹ to confirm, among others, that:

- The IDB funds have been used, in accordance with the relevant Loan Contracts/ Letters of Agreement of financing requirements.
- The counterpart and/or co-financing, have been provided and invested in accordance with the pertinent Loan Contracts/ Letters of Agreement of financing.
- The goods, works, and services financed have been procured in accordance with the Procurement Policies and Procedures of the Bank¹⁰ or other guidelines deemed acceptable to the Bank; the auditor should conduct physical verification tests, based on risk considerations.
- The necessary supporting documents, records and accounts have been maintained for all the activities and expenses of the Project.
- Local currency to US dollars has been converted in accordance with the requirements of the Loan Contract/ Letter of Agreement, (3.03) or the Letter of Agreement.
- The design and effectiveness of the Project's internal controls related to the financial reporting.
 - These procedures will be performed in accordance with the requirements of ISA 315 "Identification and Assessment of the Risks of Material Misstatement through the Knowledge of the Entity and its Environment.
 - The auditor will obtain an understanding of the internal control relevant to the audit.
 - The auditor will consider mainly if, and how the relevant control prevents, detects, and correct material misstatements when a transaction is processed, or information is disclosed and its related assertions.
 - In addition, the auditor must communicate appropriately to those responsible for governance and management of the entity, with regards to the internal control deficiencies identified during the audit engagement, which in their professional judgment, are significant enough applying ISA 265 "Communicating significant deficiencies in the Internal Control to Those Charged with Governance and Management".

Internal controls cover the five key components indicated below:

- Control Environment.
- Entity's Risk Assessment Processes
- Information Systems (Including the accounting system).
- Control Activities.
- Monitoring of controls.

⁹ This reference must be considered illustrative and does not seek to define the procedures that the Auditor should implement in application of ISA/ISA.

¹⁰ Based on the complexity of the activities, the Auditor may consider including technical experts during the audit. In cases where experts should be included, the Auditor must comply with the Internal Audit Standard 620 "Use of the work of an expert".

Deliverable and Milestones

	Deliverables	Performance Standards¹¹	Milestone
On Boarding and Documents review	Entry Meeting Request Log		Auditors On boarded
Work plan and audit methodology	Work Plan (Including schedule) Audit approach and methodology Updated Request Log	Documentation done in accordance with standards set out in the Project Operating Manual and quality deemed acceptable by PEU team Meet International Audit standards	Work plan, schedule and approach agreed
Discussions, meetings and working session request, as needed	Email request Email calendar request for agreed date and time Meeting notes and action items	Requests must be done electronically and shared as per SPP PEU standards	
Compile status reports (weekly of fortnightly as agreed)	Weekly status reports to the SSP PEU	Documentation done in accordance with standards set out in the Project Operating Manual and quality deemed acceptable by PEU team Meet Audit standards standards	Project monitoring reporting completed
Maintain Project Monitoring Logs	Action Items Log Request Log	Maintained in excel and accessible to the SSP PEU team electronically	Control logs maintained – current and complete

¹¹ All documentation must be produced on time and must conform to the standards in the section on methodology and standards above.

	Deliverables	Performance Standards¹¹	Milestone
			Shared with team (accessible)
Complete Audit	Draft Audit Reports Draft Review meeting presentation and notes Final Report	Draft report must be shared at least 3 days before the meeting. Items of note or needing clarification must be discussed in the meeting Final report must include all components as per the TOR	Audit Completed
Exit Meeting	Meeting request Meeting notes		Audit report accepted

Duration

The IDB and MNS requires an Annual Audit over a three-year period for the Security Strengthening Project (SSP) to be conducted for:

Financial Year	To Commence on or before	Due date for completion
2018/2019	May 6, 2019	June 24, 2019
2019/2020	May 4, 2020	June 23, 2020
2020/2021	May 5, 2021	June 22, 2021

The Auditor selected under this TOR will audit for the duration of the projects as per the Audit requirements.

Type of Consultancy

Audit firm

Reporting

The Consultant will report to the Project Director – Project Execution Unit (PEU) for the Security Strengthening Project (SSP) and work directly with the PEU team and all the Technical working groups (TWGs)

He/she will liaise and consult with the Ministry of National Security and the Agencies involved in SSP on matters relating to the Project, as necessary.

Location

Offices of MNS, the SSP PEU and the Auditors Office, with mobility as needed taking into account the locations of the various stakeholders and other scenes of action, and demands of the assignment, day to day.

Payment Schedule

The following payment schedule is recommended:

- 15% on initiation of the annual audit
- 50% on completion of the draft audit reports
- 35% on completion of the audit

APPENDIX A

Model Audit Report On the Statement Of Accumulated Investments And The Statement Of Cash Receipts And Disbursements Made

Model suggested by ISA 800 (revised) for Special Purpose Financial Statements prepared in accordance with requirements of financial reporting per the Agreement or Contract.

REPORT OF THE INDEPENDENT AUDITOR ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS

To: _____

Program: _____

Audit Opinion

We have audited the Financial Statements of [name of the Program xxx] carried out by [borrower and/or EA] and financed with resources of the Loan Contract/Technical Cooperation Agreement N° _____ of the Inter-American Development Bank (IDB) and with contributions of the Government of _____, which include the Statement of Cumulative Investments as of [20xx and 20xx – closing dates], the Statement of Cash Received and Disbursements Made, and the notes to the financial statements prepared for the year(s) ended on this/these date(s) as well as the notes to the financial statements, which include a summary of the relevant accounting policies.

In our opinion, the accompanying Financial Statements of the Project /Program xxx for the year (s) ended on (20xx and 20xx – closing dates) have been prepared in all material respects, in accordance with the financial reporting requirements of the contractual clause xxx of the Loan Contract/Letter of Agreement No and the Audited Financial Reports and External Audit Management Handbook for projects financed by IDB.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the [insert name of the Borrower and/or Executing Agency of Loan Contract/Agreement Letter No. xx] in accordance with the ethical requirements that are relevant to our audit of the financial statements in [insert name of jurisdiction] and we have fulfilled our other ethical responsibilities in accordance with these

requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter Paragraphs and Basis of Accounting, and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statements have been prepared to assist the Project /Program xxx in accordance with the requirements of the Letter of Agreement N° xx and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB.—As a result, the financial statements may not be suitable for another purpose. Our report is intended only for the Executing Agency / Coordinator (or equivalent) of the Project and the IDB, and should not be distributed to other parties other than the Bank or the Executing Agency / Coordinator (or equivalent) of the Project. However, this report may become a public document, in which case its distribution would not be limited. Our opinion has not been modified in relation to this issue.

Management’s Responsibility

Management is responsible for the preparation of these financial statements in accordance with the requirements established in the contractual clause XX of the Loan Contract /Letter of Agreement N° XXX and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. In addition, management is responsible for establishing internal controls as they determine necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our objective is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements¹².

[Signature on behalf of the audit firm, on behalf of the auditor or on behalf of both, as appropriate in the jurisdiction in question]

[Address of the auditor]

[Date]

¹² Consider the requirement of Section 41 (b) and 41 (c) of ISA 700 (Revised).