

Terms of Reference (ToR) for Internal Audit Services

1. Background:

NRN Infrastructure and Development Limited (NRNIDL), a prominent entity listed on the Nepal Stock Exchange, was established in 2012. Since its inception, NRN Infrastructure and Development Ltd has expanded its operations into various sectors, such as hydropower, banking, microfinance, renewable energy, and other economic infrastructures.

2. Objectives:

The objective of this internal audit is to evaluate the effectiveness of the company's internal controls, risk management, and governance process to ensure the integrity and efficiency of its operations. The audit will focus on key operational, financial, and compliance areas to ensure that the company operates efficiently and effectively while safeguarding its assets and ensuring compliance with relevant laws and regulations.

1. Assessing the effectiveness of the company's governance structure, including board oversight, management accountability, and adherence to ethical standards and legal and regulatory requirements.
2. Reviewing the company's risk management framework to identify, assess, and mitigate key risks associated with infrastructure investments, such as project risks, market risks, and compliance risks.
3. Evaluating the adequacy of internal controls related to investment decision-making, fund allocation, asset valuation, and financial reporting to prevent fraud, errors, and noncompliance.
4. Monitoring compliance with relevant laws, regulations, and internal policies to ensure that the company operates within legal boundaries and industry best practices.
5. Providing independent assurance on the transparency and reliability of financial reporting processes to enhance investor confidence and stakeholder trust in the company's performance.

These objectives aim to strengthen the company's governance practices, mitigate risks, and enhance operational transparency and accountability in the infrastructure investment sector.

3. Scope of Work Overview:

The scope for an internal audit typically encompasses the following areas, though it can be adjusted based on the specific needs and priorities of the organization:

3.1 Governance Structure

- Examine the company's governance policies and procedures.
- Reviewing the effectiveness of governance structures and processes.
- Evaluating the independence and objectivity of oversight functions.
- Assessing the alignment of organizational objectives with governance practices.
- Assess the effectiveness of the board's oversight functions.
- Evaluate management's accountability mechanisms.
- Review adherence to ethical standards and compliance with legal and regulatory requirements.

3.2 Risk Management Framework

- Review the risk management framework and processes.

- Assessing the adequacy of risk management processes and controls.
- Identifying and evaluating risks that could impact the achievement of organizational objectives.
- Identify and assess key risks associated with infrastructure investments, including project, market, and compliance risks.
- Evaluate the effectiveness of risk mitigation strategies and controls.
- Providing recommendations for mitigating identified risks.

3.3 Internal Controls

- Analyzing operational workflows to identify inefficiencies and areas for improvement.
- Assessing compliance with organizational policies and procedures.
- Evaluating the effectiveness of internal controls over operational activities.
- Assess internal controls related to investment decision-making, fund allocation, and asset valuation.
- Review controls over financial reporting to ensure accuracy and reliability.
- Examine the effectiveness of internal control and compliance functions.
- Assessing the effectiveness of fraud prevention measures and controls.
- Reviewing transactions and activities for signs of potential fraud or misconduct
- Evaluate processes to prevent and detect fraud, errors, and noncompliance.
- Providing recommendations for strengthening anti-fraud measures.

3.4 Compliance

- Ensure compliance with relevant laws, regulations, and internal policies.
- Review processes for monitoring and reporting compliance issues.
- Evaluate adherence to industry best practices and standards.
- Ensuring regulatory compliance with applicable laws, regulations, and industry standards.
- Reviewing policies and procedures to verify adherence to legal and regulatory requirements.
- Assessing the effectiveness of compliance programs and controls.

3.5 Financial Reporting

- Reviewing financial statements for accuracy and compliance with accounting standards.
- Review the accuracy and completeness of financial statements.
- Assessing the integrity of financial data and transactions.
- Assess the transparency and reliability of financial reporting processes.
- Evaluating the effectiveness of internal controls over financial reporting.
- Provide assurance on the integrity of financial information to enhance investor confidence and stakeholder trust.
- Facilitate to develop coherent financial reporting framework that supports for check and balance of the data, and data flow with error matrix to detect errors if any
- Facilitate to prepare quarterly and annual financial statements for reporting purpose.

3.6 Information Technology (IT) Systems:

- Reviewing IT systems and infrastructure for security vulnerabilities.
- Evaluating controls over data integrity, confidentiality, and availability.
- Assessing compliance with IT policies and procedures.

3.7 Special Projects

- Conducting ad-hoc audits or investigations as required.
- Assisting with special projects or initiatives aimed at improving organizational performance or addressing specific challenges.

4. Audit Methodology

The audit will be conducted in the following phases:

4.1 Planning

- Develop a detailed audit plan and schedule.
- Identify key stakeholders and gather relevant documentation.
- Conduct a preliminary risk assessment to identify high-risk areas.

4.2 Fieldwork

- Perform detailed testing and analysis of controls and processes.
- Conduct interviews and discussions with relevant personnel.
- Review documentation and records to gather evidence.

4.3 Reporting

- Summarize findings and observations.
- Develop recommendations for improvement.
- Prepare a draft audit report for review by management.
- Finalize the audit report and present it to the audit committee.

5. Deliverables

- Detailed audit plan and schedule.
- Interim audit findings and progress reports.
- Draft audit report with findings and recommendations.
- Final audit report.

6. Timeline

The audit will be conducted on quarterly basis, every last week of the quarter, with the following key milestones:

- Planning Phase: Second week of the last month of each quarter (Aswin, Poush, Chaitra and Ashad)
- Fieldwork Phase: 23rd day of each stated month to 28th of the month
- Reporting Phase: 1st day of next quarter

7. Resources Required

- Access to relevant documentation and records.
- Availability of key personnel for interviews and discussions.
- Cooperation from all departments and functions within the company.

8. Confidentiality

All information obtained during the audit will be treated as confidential and used solely for the purpose of the audit. The audit team will adhere to the company's confidentiality and data protection policies.

9. Follow-Up:

- Monitoring the implementation of audit recommendations.
- Conducting follow-up audits to verify the effectiveness of corrective actions taken.
- Reporting on the status of implementation and any outstanding issues.

The scope of an internal audit should be comprehensive enough to cover all significant risks and areas of concern within the organization while remaining focused on adding value and facilitating the achievement of strategic objectives.

10. General understanding of the Internal Audit process:

- The service provider will assemble a team of auditors led by a qualified chartered accountant.
- On-site audits will be conducted on or before the 23rd of the last month of each quarter, concluding on the quarter-end date. Audited financials will be finalized by the end of the quarter for public dissemination. Any issues requiring discussion with the audit committee or the board will be brought to management's attention for resolution.
- The service provider may conduct assessments and audits of necessary documents at any time with prior notice.
- Detailed records of the audit process findings will be maintained and updated to minimize redundancy and streamline procedures.
- The review of policies and bylaws will occur at the outset of the audit, with recommendations provided to management for any required amendments. Findings from this review will be documented for future reference.

11. Terms and conditions:

1. The service provider must be a consulting/auditing firm that is registered under the applicable regulations in the country.
2. The service provider must have been auditing publicly listed companies for the past three years and possess the necessary infrastructure and expertise.
3. The proposal should consist of all credentials, documents, certificates and expert consultation professional profiles.
4. The financial proposal should be inclusive of all applicable fees and taxes.

12. Selection Criteria:

1. 70% weight will be allocated to Technical Proposal.
2. 30% weight will be allocated to Financial Proposal.