



**Islamic Republic of Afghanistan**

**Ariana Afghan Airlines**

**TERMS OF REFERENCE (ToR)**

**FOR**

**Project for Assurance of AAA Profit Share AUP (2018 – 2020) – JVPA**

**Lump Sum contract**

**Date: Nov 15, 2020**



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## 1.0 Background

Ariana Afghan Airlines (AAA) is the country's National Carrier founded in 1955, ARIANA is the oldest airline of Afghanistan and has historical credibility in the aviation market.

The company has its main base at Kabul International Airport, from where it provides flights to India, Russia, Saudi Arabia, Turkey, Kuwait, China, and UAE. The carrier is headquartered in Shahr-e-Naw, Kabul, Afghanistan.

Also, we have a JPVA Joint Venture Partnership Agreement with National Aviation Service W.L.L at Kabul, Herat & Kandahar international airport. The performance at airports has been operated by NAS and the Profit share distribute after all expense as Ariana 59% and NAS 41%.

**Background of the Audit Assignment:** Ariana Afghan Airline has been issued an Agreed Upon Procedure – JPVA for assurance of our profit share form JPVA for the years 2014, 2015 & 2016 by Deloitte audit company and for the year 2017 by BDO audit company.

## 2.0 Objectives of the assignment

The overall objective of the engagement is to review of status of records which require a thorough review of Balance sheet items and suggesting recommendations to the management for write offs/reversals and adjustments etc. based on compilation of financial statements from source documents as mentioned Agreed – Upon Procedures.

## 3.0 Scope of Services

Review of financial statements from source data as agreed upon procedure from FY 2018, 2019 & 2020 till end of agreement. AUP engagement to Perform stated audit for procedures regarding financial information (4400) ISRS. Period to be covered under this AUP would be the financial year 2018, 2019 & 2020 till end of agreement (FY 2018, 2019 & 2020 till end of agreement), and clearance for comments of audit company for prior financial years if any, according to instruction of Ariana Afghan Airlines BoD & BoM agreed, dated September 2018.

Consultant will do the following but shall not be limited to:

SR	AGREED UPON PROCEDURES-JVPA	REFERENCE
01	Review schedule of purchase deposits for the existence of purchase deposits through confirmation with manufacturers or examination of supporting documents (100% verification required) during 2018, 2019 & 2020 and responsibility of NAS in terms of investment as per the JPVA.	Best practice
02	To check whether management fee is calculated in compliance with the JPVA agreement and provide reasonable assurance about the cost.	Agreement point 4.3 meeting in Dubai (point 4)
03	Review for the compliance of JPVA conditions and stages of recognition of additional investment of US 2 million by NAS by end of year 6 of the JPVA and identification of funds invested through investment schedule, plus a further investment of US 10 Million throughout the life cycle of the JV agreement.	Agreement point 6 – Article 10.1 (Amendment dated 30 April 2014)





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04	To check the eligibility of expenses under JVPA agreement (overall transaction during 2018, 2019 and 2020).	Agreement point 10
05	To obtain the client's revenue of breakage and inquire for any changes to the assumption used in calculation, and to agree breakage amounts to revenue system reports (monthly revenue system would be reviewed)	Agreement point 10.2
06	Review of the revenue recognition and calculations as per JVPA, also review approval of ACAA for the number of flights taken off and landed during the period at the airports.	Agreement point 10.2 , meeting in Dubai (point 7 and additional point 1)
07	To check whether dividends/profit share is calculated and distributed as per the JVPA agreement while considering the level of investment by NAS.	Agreement point 10.3
08	Review of security provided by NAS	Agreement 10.4
09	Review of services provided by NAS under Annex 1 of JVPA.	Agreement 11
10	Review for the rent leveling accounts and to check balances with respect to lease agreement. (100% verification required).	Agreement 13
11	Review of JVPA fixed assets register for net book value and remaining useful life of an asset left and review of approval by ACAA.	Agreement point 13.6 and meeting in Dubai point 3
12	Review the reasonableness of depreciation expense and evaluate the provision for obsolescence. (100% verification required).	Agreement point 13.6
13	Inquired about significant arrangement to defer/cancel equipment deliveries (100% verification required).	Agreement point 13.6
14	Check that equipment is purchased according to the company's procurement policy (100% verification required) including review of sources of funds, and provide reasonable assurance about the company procurement policy.	Agreement points 13.6
15	Review whether assets are recorded in accordance with applicable financial reporting framework (100% verification required)	Agreement points 13.6
16	Onsite physical verification of JVPA assets at airports and review of acquisition of assets (100% verification required)	Agreement points 13.6 and in Dubai meeting point 3
17	Review the reconciliation of the inventory to the general ledger and to investigate unusual reconciling items (monthly reconciliations would be done)	Best of practice.
18	To review the reasonableness of the allowance for obsolesces of consumable parts over the related fleet lives, including evaluating the assumption used to collect this allowance.	Best practice.
19	Review of compliance with the agreement terms.	Agreement point 14
20	Review detail of accident insurance proceed receivable and to agree the overall balance with general ledger (100% verification required and review with related agreement).	Agreement point 21
21	To review medical insurance and workers compensation accrual and identify the reasons for variation with previous year.	Agreement points 21
22	Review of insurance policies and payment of premiums of employees, also review of Ariana approvals regarding these payments.	Agreement points 21
23	Physical verification and inspection of assets constructed and managed by NAS as per JVPA.	Meeting in Dubai point 6
24	Review of the airline's charges schedule.	Meeting in Dubai point 11
25	Busses at the airport (physical verification, cost, useful life & tax calculation).	Meeting in Dubai (additional point 2)
26	Review for the reconciliation reserve if is still shown as part of profitability calculations and review of its disbursements if any.	Meeting in Dubai point 8 & 10.3.3 agreement.
27	Review of bank reconciliation of NAS Afghanistan for FY 2018, 2019 and 2020	Best practice.





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28	Verification of employees of JVPA and review of reconciliations of joiners, leavers with the number at the year end and their cross check with payroll and bank statements to ensure the payroll payments are fully traced. Review of their remuneration and requirements as per the agreement.	Agreement point 13.5
29	Review of emergency resource plan of NAS as per agreement terms.	Agreement point 13.8
30	Review of performance reports prepared by NAS against the obligations set out in Annex 4.	Agreement point 20
31	Provide reasonable assurance about the “Cash Airlines” with no prior agreement for GHS with the full breakup and approved flights from ACAA.	Best Practices
32	Review Budget vs Actual Analysis for the FY 2018, 2019 and 2020.	Best Practices
33	Review and provide opinion on internal control over financial reporting for the year 2018, 2019 and 2020.	Best Practices
34	Review the internal control activities and assess the control risk for the year 2018 and 2019 and 2020 Till end of agreement.	Best Practices
35	Review the non-cash expanses of NAS for accumulate depreciation and reserves	As per Afghanistan Law
36	Perform vertical and horizontal analysis in Profit and Loss and Balance Sheet and comment on the performance with regard to the trend both in the JVPA and in the industry.	Best Practices

### **Framework to be followed for reporting on this assignment:**

- International Financial Reporting Standards (IFRS)
- Requirements of Government of Islamic Republic of Afghanistan laws.

### **4.0 Liaison with [Finance Department of AAA]**

The Consultant shall maintain close liaison with the [Head of General Accountant/] appointed by the Client for the sole purpose of the services. The [Head of General Accountant/] shall be the primary contact point of the entity.

### **5.0 Additional Responsibilities of the Consultant**

As mentioned above section 3.

### **6.0 Obligation, Duties and Responsibilities of the entity**

National Aviation Service – NAS of Afghanistan partner of AAA will provide all necessary information and related documents to the Consultant free of any charge.

### **7.0 Duration of the Services**

The duration of the Services is to extend from the date of effectiveness of the Contract for a period of approximately [4] months.

### **8.0 Equipment to be provided by the consultant**

As detailed under Section 5 herein above, the Consultant should arrange all facilities required for the consultancy service to be provided by him and the cost of such provision should be detailed in the Consultant’s financial proposal.



## 9.0 Deliverables and Reporting

- i. **Presentations to the Entity:** [It should be request by consultant and confirmed by entity]
- ii. **Draft Final Report:** [It should be covered mentioned scope of services and (4400) ISRS, and time submission will be after presentation]
- iii. **Approval of Final Report:** [after presentation and draft of final report]

## 10.0 Staffing and Skill Mix Needed

The successful team will be comprised of both local and international expert with the specific experience and background noted. It is suggested that in putting together its team, consultants consider designating individuals with the following roles, responsibilities and backgrounds:

**The core staff to be evaluated will include:**

- a) Position K-1: [Team Leader]
- b) Position K-2: [Manager]
- c) Position K-3: [Supervisor]
- d) Position K-4 (Member)

S. No.	Staff Position		Number	Estimated Person Month (Each)
<b>Key Professional Staff</b>				
1	Team Leader		1	0.5
2	Manager		1	0.5
3	Supervisor		2	2
<b>Estimated Person Months for Key Staff</b>				<b>3</b>
<b>Support Staff</b>				
4	Member		4	4
<b>Estimated Person Months for Support Staff</b>				<b>4</b>

## 11.0 JOB DESCRIPTIONS AND MINIMUM QUALIFICATIONS

The job descriptions and minimum qualification of the key/other professionals for the core Team of the Consultants shall be as given below:





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SL	Positions	Job Descriptions	Minimum Qualification
1	Team leader	The consultant firm can arrange according to their action plan.	Professional Qualifications: CA/ACA/ACCA Qualified Experience: At least five years of relevant experience
2	Manager	The consultant firm can arrange according to their action plan.	Professional Qualifications: ACA/ACCA Qualified Experience: At least five years of relevant experience
3	Supervisor	The consultant firm can arrange according to their action plan.	Professional Qualifications: ACCA finalist Experience: At least three years of relevant experience
4	Member	The consultant firm can arrange according to their action plan.	Professional Qualifications: at least BBA/Bachelor of Economics or Accountant, Master is preferable Experience: At least three years of relevant experience

## 12.0 PAYMENT SCHEDULE

1. 10% after presentation
2. 10% after draft final report
3. 80% after approval of final report

