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TERMS OF REFERENCE

Internal Audit Capacity Building

Kreditimi Rural i Kosoves, Prishtinë

18 November 2024

1 | Background

Kreditimi Rural i Kosoves (“MFI”, “KRK” or the “Institution”) is the third largest MFI in Kosovo with a market share of 19.7% (in terms of loan portfolio). The Institution operates through a wide network of 27 branches covering most of the Kosovo territory. As part of its strategic vision, KRK aims to grow sustainably, enhancing its market share and range of services, while increasing profitability and client outreach.

To ensure operational sustainability and growth, as well as to contain potential risks associated with growth, the institution has approached the DF Manager with a request for a dedicated technical assistance support to increase the effectiveness of its internal audit function by implementing the risk-based audit approach. This approach will better link the KRK’s internal auditing to its overall risk management framework, and ensure that risks are properly managed, classified and reported. The DF Manager is seeking to support KRK with the requested tailored TA to increase the effectiveness as well as the quality of the institution’s internal audit and internal control system, thereby ensuring greater business sustainability.

2 | Purpose of the assignment

This assignment will focus on strengthening the KRK capacity to set-up, implement, and enforce best-practice internal control systems. The focus will be on the Internal Audit function, enhancing a risk-oriented process analysis and internal risk consulting.

The Consultant will assist KRK in enhancing efficiency, effectiveness and scope of the Internal Audit Department’s operations by strengthening its risk-based control function and a comprehensive audit plan, expanding capabilities to include Environmental, Social, and Governance (ESG) audits, as well as Information Technology (IT) audits. The consultant will also develop internal audit guidelines and reporting formats with ESG and IT components, ensuring compliance with internationally recognized standards and national regulations.

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3 | Scope of work

The objective of the project is to support KRK in strengthening the capabilities of the internal audit and internal control system of the institution by enhancing its risk-based audit approach, plans and guidelines. A comprehensive internal risk-based audit function shall allow senior management to identify and prioritize key risk exposures, design mechanisms to mitigate risks and assign responsibilities to conduct appropriate controls.

Terms of Reference

The proposed project will include three Components: (1) Institutional assessment, (2) Further development and implementation of a risk-based audit approach, (3) Staff capacity building. Key tasks include the revision of existing internal audit practices of the institution, enhancement of a risk-based control function in audit, designing risk-based plans and guidelines including ESG and IT components, designing audit report templates and capacity building for audit staff.

Component 1. Institutional Assessment

▪ Review of Current Internal Audit Practices

- Analyze existing policy, procedures, reporting mechanisms, competencies of the internal audit department and the Audit Committee's role;
- Evaluate risk management procedures and audit resource allocation;
- Assess the compliance with local and international internal audit standards and best practices;
- Identify strengths, weaknesses, and gaps in current practices and provide recommendations to align with best industry practices.

Component 2: Development of Guidelines, Plans and Templates

▪ Development of a Comprehensive Risk-Based Control Function and an Audit Plan

- Design a comprehensive risk assessment framework and guidelines for identifying, assessing and prioritizing risks across departments;
- Prioritize audit activities based on risk assessment and organizational goals;
- Collaborate with the Internal Audit Department to design a comprehensive risk-based audit plan that includes ESG and IT components;
- Propose recommendations for efficiently managing requests from law enforcement and other external entities;
- Create a monitoring approach for tracking and updating risk management activities.

▪ Development/Update of Internal Audit Guidelines

- Work with the Internal Audit Department to update guidelines, including:

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- Revise standards, methods and procedures for internal audits;
- Define audit methodologies, sampling techniques and criteria for issue identification;
- Develop methodologies for remote audits;
- Include guidance and templates for conducting risk-based audits in ESG and IT areas;
- Define Head office and branch auditing structure;
- Update practical aspects such as designing annual work plans, planning audit hours;
- Develop Internal Audit Report Formats
- Design standardized reporting formats to ensure clarity, consistency, and completeness in audit reports;
- Templates should address both operational audit areas and ESG and IT audits;
- Internal Audit Report Formats should include specific report templates for different stakeholders, such as:
 - **Branch Audit Report:** A detailed evaluation of the audit conducted at a regional branch, covering business processes, internal control effectiveness, and compliance with regulations. This report will focus on the branch's operations and provide recommendations for improvement;
 - **Audit Committee Report:** A summarized version of the audit results, highlighting key findings, risk areas, and significant recommendations for the Audit Committee's attention. It should also include any unresolved issues and proposed actions;
 - **Audit Committee Quarterly Reports:** A periodic update for the Audit Committee, summarizing internal audit activities, significant audits performed, key findings, risk trends, and progress on previously identified issues;
 - **Board of Directors (BoD) Audit Report:** A high-level overview of the audit's strategic findings and recommendations related to risk management, governance, and corporate objectives, presented in a format that focuses on long-term organizational impact.
- Identify additional compliance requirements relevant to ESG and IT audits;
- Ensure all processes, tools and plans align with international audit standards. Confirm compliance with Kosovo national regulations governing internal audit practices.

Component 3: Capacity Building

- Train internal audit staff on ESG and IT audit practices, tools and frameworks;
- Provide ongoing consultation and coaching to audit supervisors during the audit of one head office and one branch;

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- Attend one/two Audit Committee meetings to review its practices and provide recommendations for improvement;
- Organize a general audit training session for Internal Audit Department employees based on the consultant's findings and recommendations;
- Design training and development programs for audit staff on audit practices, tools and frameworks.

Deliverables

- Kick-off call with the institution and the DF Manager's project team;
- A diagnostic report summarizing the current state of internal audit and control practices at both the head office and branch levels, identifying gaps and recommendations;
- Proposed amendments to the internal audit policy and procedures, if required;
- Detailed risk-based audit plan, incorporating ESG and IT;
- Comprehensive Internal Audit Guidelines covering methodologies, sampling and audit procedures;
- Internal Audit reporting templates including:
 - Branch Audit Report;
 - Audit Committee Report;
 - Audit Committee Quarterly Report;
 - Board of Directors Audit Report.
- Compliance report confirming alignment with international standards and Kosovo regulations, with recommendations for continuous improvement compliance;
- Recommended training and development program matrix;
- Training session (2-3 days) for staff in ESG and IT audits, using developed guidelines and formats;
- A training workshop (1 day) for the internal audit team and Audit Committee members;
- A final project report, summarizing key conclusions, completed activities, and recommendations for future improvements.

4 | Implementation and timeline

The expected project timeline is 4 months, from project launch, planned for January 2025.

The Consultant's team should have extensive experience in internal audit processes, particularly with risk-based control functions, and experience in ESG and IT audit practices. They should have a deep understanding of Kosovo's internal audit regulatory requirements and practices, and knowledge of internationally recognized internal audit standards. A solid experience of working with financial institutions (especially microcredit institutions) is highly desirable.

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5 | Results indicators

The EFSE DF and consultant are responsible for the monitoring and evaluation of results achieved in the project, according to the DF Impact Measurement Framework. The consultant will be in charge of gathering all relevant data through the evaluation forms provided by the EFSE DF. The indicators to be assessed at project completion are:

Results category	Outputs/Outcomes	Indicators
Access to Finance	<input type="checkbox"/> OP II 1: capacity and operational improvements of PLIs	<ul style="list-style-type: none"> ▪ Number of PLI's staff trained for operational improvements ▪ Number of PLI's staff that report an increased capacity to better serve MSMEs ▪ Business processes of PLIs to better serve MSMEs are improved (scale: no improvement (1) to significant improvement (5)) ▪ PLI/DF Partner uses gained knowledge to enhance financial products/ services (scale: no improvement (1) to significant improvement (5))

Visibility of the EFSE DF

The consultant will ensure the visibility of the EFSE DF by placing the EFSE DF logo on all deliverables produced in connection with the project, incl. workshop materials/handouts/reports as well as branding the website for the tool as "supported by".