



## **TERMS OF REFERENCE**

### **AUDIT (2017 – 2019)**

For: CIWA Grant No. TF015834 – ENGAGING CIVIL SOCIETY FOR SOCIAL AND CLIMATE RESILIENCE IN THE NILE BASIN PROJECT IMPLEMENTED BY THE NILE BASIN DISCOURSE (NBD)

### **1. BACKGROUND**

#### **Development objectives**

- The development objective for the project is to strengthen the capacity of the Nile Basin Discourse (NBD) to engage civil society members and relevant stakeholders in Nile Basin cooperation programs, processes and dialogue.
- By creating a platform for citizen engagement in Nile Basin investment decisions and riparian dialogue, learning on climate risk management and resilience building strategies, and promoting awareness of the benefits of Nile Basin cooperation, the project will contribute to equitable, sustainable, climate resilient growth in the region. Due to the technical assistance nature of this project, however, these benefits will not accrue during the three year project life. As such, it will not be possible to measure these impacts during the life of this project. Some initial indicators will be gathered as evidence that the capacity-building and civil-society engagement process is underway.

#### **Size and implementation arrangements**

- *NBD received an additional grant amount of US\$ 1,000,000 (US Dollars One Million only) to be implemented over a period of three (3) years while focusing on the following project components:*

<b>Project Components</b>	<b>Project cost</b>	<b>Grant Financing</b>
1. Strengthening the NBD Secretariat	\$361,445	\$361,445
2. Improved communications and outreach	\$347,227	\$347,227
3. Capacity building for NBD members	\$291,328	\$291,328
<b>Total Baseline Costs</b>	\$1,000,000	\$1,000,000

**Recipient(s) of the Bank's financing;**

- NBD is the direct beneficiary of this project and, through it, the Nile River Basin civil society organizations and their members.

**The accounting period to be covered by the audit**

- The Accounting Period to be covered by the audit will be a 12-months period, for example from January 2017 – December 2017.
- The Audit firm selected will be expected to carry out audits for a maximum of three consecutive years, in this case 2017, 2018, 2019, before rotation.

**2. OBJECTIVE OF THE AUDIT**

The objective of the audit of the Financial Statements (FSs) is to enable the auditor to express a professional opinion on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting period.

The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

**3. PREPARATION OF ANNUAL FINANCIAL STATEMENTS**

The responsibility for the preparation of financial statements including adequate disclosure is that of the implementing agency. The agency is also responsible for the selection and application of accounting policies. The agency will prepare the PFSs in accordance with *Modified Cash Basis Method of Accounting*.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor will carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part

of the audit process, the auditor may request from the implementing agency written confirmation concerning representations made in connection with the audit

#### **4. SCOPE OF THE AUDIT**

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

- (a) World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant grant agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided – please see *CIWA, Grant No. TF015834 – Engaging Civil Society for Social and Climate Resilience in the Nile Basin Project*
- (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- (c) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the [World Bank Procurement Policies and Procedures](#)<sup>1</sup>;
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOEs) or Unaudited Interim Financial Reports (IFRs) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of accounts;
- (e) A Designated Account has been maintained in accordance with the provisions of the relevant grant agreement and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
- (f) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;

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<sup>1</sup> Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

- (g) Financial performance of the project is satisfactory.
- (h) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.
- (i) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.
- (j) Where funds are disbursed to other implementing agencies outside NBD, then representative sample should be included in the audit.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) **Fraud and Corruption:** Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;
- b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

## 5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see Section 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date.

The Project Financial Statements (PFSs) should include:

- (a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- (b) A summary of the activity in the Designated Account;
- (c) A Balance Sheet (if deemed necessary);
- (d) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;
- (e) A list of material assets acquired or procured to date with project funds

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

## **6. STATEMENT OF EXPENDITURES (SOEs)/UNAUDITED INTERIM FINANCIAL REPORTS (IFRs)**

In addition to the audit of the PFSs, the auditor is required to verify all SOEs or IFRs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE or IFR withdrawal applications by specific reference number and amount.

The total withdrawals under the SOE or IFR procedures should be part of the overall reconciliation of Bank disbursements described in Section 5 above.

## **7. DESIGNATED ACCOUNT**

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the general conditions, the Grant Agreement (subsection 5.3) and Disbursement Letter (para. I).

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

## **8. AUDIT REPORT**

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.

## **9. MANAGEMENT LETTER**

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

- (a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;
- (b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- (c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- (d) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- (e) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (f) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- (e) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

#### **10. AVAILABLE INFORMATION**

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

#### **11. GENERAL**

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than 6 months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006. These documents are available on the Bank's website and could be obtained from the Task Team Leader.