Terms of Reference

1. Selection of Consultants for Financial Auditing Services

**IMPROVEMENT OF WATER RESOURCES MANAGEMENT**

**IN KHATLON REGION PROJECT,**

**IsDB Loan No.TJK-1013**

**Project Background**

* 1. The Government of Tajikistan received loan from the Islamic Development Bank to finance the implementation of Improvement of Water Resources Management in Khatlon Region Project, referred as “the Project”. The total Project cost is estimated at US$ 53.50 million. The Project will be financed by the Islamic Solidarity Fund for Development of the IsDB (ISFD), OPEC Fund for International Development (OFID), Saudi Fund for Development (SFD) and Government of Tajikistan. IsDB’s Contribution is US$ 15.00 million. The Agency for Land Reclamation and Irrigation is the Executing Agency and is entrusted in the execution and supervision of the implementation of the project through Project Implementation Unit Improvement of Water Resources Management in Khatlon Region, located within the Agency for Land Reclamation and Irrigation. The legally binding terms and conditions of the financing are specified in the IsDB Loan Agreement no.No.TJK-1013, dated 28/08/2019, which may be amplified by supplemental letters and /or an amendment. The Project Appraisal Document (PAD) Report is also a useful source of information, although it is not legally binding.

**Development Objectives of the Project.** The Project development objective is to improve the livelihood of the rural population, through improvement of water resources management with resilience to climate change impacts. This will lead to increase in agriculture production, food security, increase in farm incomes, creation of jobs and alleviating the poverty.

**Project Location.** The Project is located in Khatlon Region of the Republic of Tajikistan

**Project Description.** The project has five components as follows.

**Component A.** Improvement of Water Resources Management Infrastructure: scope includes (i) Construction and upgrading irrigation and drainage schemes covering 3,000 ha land in Dangara Valley; (ii) Modernization of irrigation pumping stations with efficient pumps in selected project districts to improve water supply to 16,800 ha arable land, including reclamation of 5,300 ha land currently not cropped; and (iii) Construction and rehabilitation of rural water supply system; and rehabilitation of sanitation facilities in social institutions (schools, kindergarten, health centers, etc) in selected districts.

**Component B.** Access to Islamic Finance: This component envisions (i) extending shariah compliant line of finance (including micro-finance) to farmers and rural people to support them in agriculture value chain financing (in production, processing and marketing) and in rural development, (ii) consultancy service in capacity building in Islamic finance, and (iii) supporting Advocacy and Monitoring and Evaluation Units to promote Islamic finance

**Component C.** Sustainable Management of Water Infrastructure: the project considers (i) supply of key O&M machinery and equipment for local irrigation water management authorities and water utility operator, and (ii) Capacity development and institutional strengthening in water resources management.

**Component D** – Consultancy Service (Detailed Design and Supervision): The service includes (i) preparation of detailed engineering design including environmental assessment, expertize review; and (ii) consultancy service for design review, tendering, construction supervision and contracts management.

**Component E** - Project Management: This component considers financing the project management expenses related to (i) PIU support (staff salary, office equipment, operating and domestic travel costs); (ii) project start-up workshop, PIU staff trainings; and (iii) financial audit service.

**Context**

* 1. According to the IsDB Loan Agreement no. TJK -1013 the Executing of the Project shall at all times maintain a financial management system, including records and accounts, and prepare financial statements for the project in a format acceptable to the Islamic Development Bank and adequate to reflect the operations, resources and expenditures related to the Project. Also the Governing Body shall maintain records and supporting documents for all expenditures with respect to which withdrawals from the financing were made (the records should reflect all categories of withdrawals SOEs, direct payments ).
	2. “Pursuant to IsDB Loan Agreement Article 2.7 - Two Special Accounts in USD will be opened with the central bank of the Recipient or in a local commercial bank acceptable to the Bank for easy and timely disbursement of the Project: (i) one for payment of expenditures related to Component ‘A’ (Improvement of Water Resources Management Infrastructure) and Component ‘E’ (Project Management), and (ii) one for Component ‘B’ (Access to Islamic Finance). With the exception that the maximum disbursement limit is increased to USD 1,000,000 (United States Dollars One Million) for each Special Account, the replenishment of the Special Accounts and other matters shall be in accordance with the IsDB Procedures.”
	3. The Project Financial Statements (“PFS”) are comprised of (i) Project balance sheet at the fiscal year closing date (ii) Statement of funds receipts and expenditures incurred on the Project for the year then ending (iii) Reconciliation statement for the balance of the Project’s Account as of year end. For procurements of goods, works and services to the Project, the Governing Body is required to comply with the Islamic Development bank’s Procurement Guidelines. The Financing Agreement requires that the records, accounts and financial statements mentioned above for each fiscal year to be audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank. Audited PFS along with its Auditor’s report should be submitted to the Islamic Development Bank as soon they become available but not later than six months after the end of the fiscal year. In fulfillment of this statutory (or Financing Agreement) requirement, the Governing Body should engage a qualified independent audit firm according to terms of reference and scope of work acceptable to the Islamic Development Bank, as summarized below.

**Objective**

4. The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the Project Financial Statements (PFS) show true and fair view of the Project’s financial position as of from first disbursement (15/06/2020) and until project completion (30/06/2024) and funds receipts and expenditures incurred during the period then ending on annual basis. (ii) Expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS, and for this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems. The Audit opinion should also state whether the Procurement Guidelines of the Islamic Development Bank have been properly applied and in accordance with the Project's Loan Agreement no. TJK-1013.

**Scope**

5. The audit subject of this Terms of Reference is considered as a special purpose contractual agreement audit for which, in addition to compliance with international standards as explained below, the auditor needs to take into consideration the Islamic Development reporting requirements and compliance with Islamic Development Procurement Guidelines.

6. The audit will be carried out in accordance with Generally Accepted Auditing Standards (GAAS) such as the International Standards on Auditing (IAS) issued by the International Federation of Accountants (IFCA) or the Audit Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI), having regard to relevant financing agreements and Islamic Development Bank’s particular requirements, and should pay special attention to the following:

* 1. All funds provided to the Project have been used, accounted for and classified in accordance with the relevant financing agreements;
	2. All the transactions related to the project are reflected in the PFS issued according to Generally accepted Accounting Policies;
	3. Goods, works and services financed have been procured in accordance with the relevant financing agreement;
	4. All necessary copy of supporting documents, records, and accounts have been kept in respect of all project. Clear linkages should exist between the books of account and reports presented to the Bank;
	5. Compliance with specific covenants of the Financing Agreement, {Project Agreement and Subsidiary Financing Agreement} (e.g., compliance with the short-term and long-term borrowing conditions, cash flow covenant);
	6. The Auditor is required carry out concurrent verification before each Project Special Account replenishment request be made, in order to verify and confirm that funds were utilized for eligible expenses as per the Project’s Financing Agreement and Disbursement Handbook
	7. External funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
	8. Counterpart funds have been provided and used in accordance with the relevant financing agreements, and only for the purposes for which they were provided. Thus the audit of expenditures shall cover the funds utilized from IsDB, SFD and OFID resources with the annual audit reports required to be submitted to all financiers equally – IsDB, SFD and OFID.
	9. The PFS have been prepared in accordance with generally accepted accounting principles and practices, and give a true and fair view of the financial position of the Project as of from the first disbursement and until project completion (30/06/2024) and of the resources and expenditures for the fiscal year then ending.

7. The auditor will be expected to review all correspondences with the Islamic Development Bank in relation to the Project including copies of the Aide Memoires, Mission Reports, and assess progress on all financial issues. The auditor will pay special attention to any specific risk area as mentioned in the project documents (such as PAD, etc.)

1. **Audit Deliverables**

8. There are two main deliverables of the audit engagement:

(i) **Audit Report** whichshall include **a**n explicit professional opinion whether (a) the project financial statements give a true and fair view of the state of the Project's affairs, (b) expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS. The Auditors should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Financing Agreement and express in the report any relevant exception and the impact of the exception on the PFS.

(ii) **Management Letter** whichshould report any significant accounting and control issues arising from the audit, as identified during the internal control mechanisms review together with the related risk. The letter, with management responses, and recommendation to address the situation and insufficiencies, should be made available to the Project's governing body in time. As annex of the Management Letter the auditor will mention whether or not recommendations issued on the previous Management Letter have been considered by the PIU and/or Executing Agency.

**General Principles for Audit**

9. The auditor should be registered as certified public accountant with the appropriate professional body in the country and have substantial experience in auditing major projects in the country. In case of government auditing, the audit team should be adequately staffed with qualified auditors having relevant background and experience in auditing. The same audit principles should be applied if the audit is conducted by private or government auditors.

1. **Irregularities Including Fraud**

10. The Executing Agency is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations, and for the prevention and detection of irregularities, including fraud. Although, the Auditors are not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditors have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud, or breach of regulations.

11. The Auditors will report in writing any serious weaknesses, fraud, irregularities or accounting break-downs that they come across in the normal course of their duties to the designated office holder, Executing Agency, and the Islamic Development Bank without delay.

1. **Access**

12. The Auditors shall have rights of access to the books, accounts, vouchers, Financing Agreement, Project Agreement and related Supplemental Letters, Project Appraisal Document, correspondence, and all other documents in relation of the Project and to such information and explanations as auditors consider necessary to perform their duties and fulfill their responsibilities.

13. In addition, the auditors will be provided with copies of the Islamic Development Bank’s relevant publications that the governing body has to recognize, including the Islamic Development Bank’s “*Procurement Guidelines*”.

14. In turn, on occasions the Islamic Development Bank’s representatives may wish to meet with Projects' auditors, in connection with a visit to the auditor’s office, review of the audit working papers files and discussion of the work performed and conclusion reached by the auditors. The Auditor should not limit access in any way and must reply to all inquiries raised by the Islamic Development Bank’s representative. Failure to comply with this provision may disqualify the auditors from dealing with the all projects funded or administered by the Islamic Development Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The Islamic Development Bank will have this exclusive right during performance of the audit and within two years after completion of the audit engagement.

**Miscellaneous**

15. **Annual Meetings**. The Auditor will be requested to attend the meeting of the Executing Agency to which the Project's annual reports and financial statements of account are presented. The Auditor will receive all notices and other communications relating to that meeting which any member of the Executing Agency is entitled to receive. The Auditor will discuss the audit report and management report and any part of the business which concerns the auditor.

16. **Termination of Appointment.** If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the Islamic Development Bank, may pass a resolution to remove the Auditors before the expiry of their assignment.

17. **Restriction of Auditor's Liability**. There is no limitation of the auditors' liability in respect of audit opinions given under this assignment. The Project’s Executing Agency will not agree to any such restriction in liability.

18. The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the **Agency for Land Reclamation and Irrigation/ Improvement of Water Resources Management in Khatlon Region Project Implementation Unit”.** This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

19. The financial statements, including the audit opinion, and management letter should be received by the Project’s Executing Agency, no later than six months after the end of the audited fiscal year. The Project’s implementing agency should then promptly forward two copies of the audited project financial statements (including audit opinion) and management letter to the Bank.