

Terms of Reference
Strengthening Fiscal Governance Project (SFG1)
Financial Audit
Procurement Ref. “FC-0xx”

1. Project Background

The Ministry of Finance is implementing a new project under the title of “Strengthening Fiscal Governance” to provide continuous support to achieve Public Financial Management (PFM) reforms in Lebanon. The project is funded by a loan from the International Bank of Reconstruction and Development (IBRD). The implementation period will cover FY17 – FY21. The development objective of the “Strengthening Fiscal Governance” Project (SFG1) is to improve fiscal policy analysis, budget transparency and effective cash management, enhance public debt management, and review and expand Ministry of Finance (MoF) e-services

The project provides technical support to the Ministry of Finance in four main areas:

- **Component One:** “*Review Policies and Procedures Manual of the General Directorate - Ministry of Finance (GDoF) and Capacity Building*” has three sub-components as follows:
 - 1.1- Reviewing Policies and Procedures Manuals of the GDoF
 - 1.2- Strengthening Capacity Building at GDoF Finance
 - 1.3- Project Management and Reform Coordination
- **Component Two:** “*Macro-Fiscal Analysis and Budget Management*” has three sub-components as follows:
 - 2.1- Enhancing Macro-Fiscal Analysis Capacity
 - 2.2- Upgrading, Publishing and Implementing Budget Preparation Guidelines
 - 2.3- Promoting Transparency of Budget Information
- **Component Three:** “*Strengthening Accounting, Cash Management and Public Debt Management*” has three sub-components as follows:
 - 3.1- Strengthening Accounting and Financial Reporting
 - 3.2- Making Cash Management More Effective
 - 3.3- Enhancing Public Debt Management
- **Component Four:** “*Developing Internal Audit, MoF E-Services and Public Procurement*” has two sub-components as follows:
 - 4.1- Developing Internal Audit
 - 4.2- Reviewing and Expanding MoF E-Services

The Ministry of Finance, as the loan recipient, is the primary institution responsible for overseeing project implementation and ensuring the Bank's guidelines and procedures are adhered to, primarily fiduciary aspects -- procurement management, financial management, monitoring and evaluation (M&E) -- and reporting to the World Bank and other relevant agencies. To facilitate this day-to-day Project implementation, a dedicated Project Management Unit (PMU) has been established within the General Directorate of Finance (GDoF).

2. Objective and Scope of the Assignment

The objective of the audit of the Project Financial Statements (PFS) of the SFG1 Project is to enable the auditor to express at the end of each fiscal year or any other period specified by the World Bank, a professional opinion as to whether the Financial Statements and supplementary information present fairly, in all material respects, the financial position of the SFG1 at the end of each specified period, and of the funds received and expenditures incurred.

The two periods that will be covered during this audit are as follows:

- First period starting on January 1, 2020 and ending on December 31, 2020.
- Second period starting on January 1, 2021 and ending on February 28, 2022.

The audit shall also include a separate opinion on the accuracy and reliability of the internal control procedures of the Statements of Expenditures (SOEs) submitted during the period under audit to support related withdrawals; a separate opinion reconciling opening and closing balances of the Designated Account (DA); In addition to a separate opinion stating whether the Procurement Guidelines of the World Bank and the Project's Loan agreement have been properly complied with.. The auditor shall carry out such tests and controls of the underlying records as the auditor considers necessary under the circumstances.

The Project's accounts provide the basis for the preparation of the Project Financial Statements (PFS) and are established to reflect the financial transactions in respect of the project, as maintained by the project implementing agency, in this case the Ministry Of Finance.

The original contract to be signed with the consultant shall cover the period stated above. However, the contract can be terminated (i) should the auditor be performing unsatisfactorily or (ii) to the discretion of the Ministry of Finance (for no reason related to performance). The price of the contract is to cover the whole period,

3. Engaging Authority

The client for this audit is the Ministry of Finance (MOF), the implementing agency for the SFG1 Project, which is required to furnish to the World Bank a copy of the Audit Report and Audited Financial Statements for each Fiscal Year no later than three (3) months after the end of the fiscal year under audit or any period otherwise specified by the World Bank.

4. Project Financial Statements

According to section 5.09(b) of the General Conditions for Loans made by the World Bank, referred to in Section B – “3” of the Loan Agreement # LE 08300, the Ministry of Finance (MoF), the implementing agency for this Project, shall ensure that a financial management system is maintained and Financial Statements are prepared in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the project; and in accordance with the provisions of the Loan Agreement which states that the Financial Statements should be periodically audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank; and the Financial Statements, as so audited, should be furnished to the World Bank no later than three (3) months after the end of the fiscal year under audit or any other period specified by the World Bank, together with other information concerning the audited Financial Statements and such auditors, as the World Bank may from time to time reasonably request.

The Project Management Unit (PMU) at the Ministry of Finance holds the responsibility for the preparation of the set of Financial Statements relating to the SFG1 Project on which the Independent Auditor shall report. The PMU will ensure that all the necessary records are available for the audit, all the accounting entries and adjustments have been made, and all the necessary actions have been taken to allow the auditors to issue the final report on time. The Project Financial Statements (PFS) are comprised of the following:

- a) Project sources and uses of funds, for the fiscal year under Audit;
- b) Uses of funds by components, category and activities, for the period under Audit;
- c) Contract expenditures, for the period under audit;
- d) Statement of Expenditures (SOE) by components and activities, for the period under Audit;
- e) Designated Account Reconciliation Statement, showing opening and closing balances including transfers to and payments from the account by loan components and activities for the period under Audit;
- f) A comprehensive list of fixed assets acquired under the project which will include a description, status, amount, purchase date, user and location of each fixed asset.

5. Audit Scope

The Audit should be carried out in accordance with internationally accepted auditing standards such as the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC) and the Generally Accepted Auditing Standards (GAAS) Issued by the American Institute of Certified Public Accountants (AICPA) or the Auditing Standards published by the International Organization of Supreme Audit Institutions (INTOSAI); with regard to the relevant Loan Agreement and World Bank Guidelines.

The auditor should apply audit procedures, tests and controls that the auditor considers necessary under the circumstances and, when relevant, the auditor should indicate any

material differences from international accounting standards IFAC's and International Public Sector Accounting Standards (IPSAS) under the cash basis of accounting, and their effect on the annual financial statements. In conducting the audit, special attention should be paid to the following:

- a)** The Project funds have been used, accounted for and classified in accordance with the conditions of the relevant Loan Agreement, with due attention to economy and efficiency and only for the purposes for which the financing was provided;
- b)** Goods and Services financed have been procured in accordance with the relevant Loan Agreement; and all goods purchased exist, are recorded in the fixed assets register with variances identified and explained through a year-end physical count, and are being used for the project purposes ;
- c)** All necessary supporting documents, records and accounts have been kept in respect of all project ventures, including expenditures reported via Statement of Expenditures (SOEs), Project Financial Statements (PFSs), and the Designated Account (DA). Clear linkages should exist between the books of accounts and reports presented to the Bank;
- d)** Where Designated Accounts (DA) have been used; that they have been maintained in accordance with the provisions of the relevant Loan Agreement; the auditor should verify that the transactions have been properly recorded, the account was used exclusively for eligible expenditures, monthly reconciliation of the account was made and the accuracy of account balances;
- e)** The auditor must identify whether Generally Accepted Accounting Principles have been consistently applied; and whether the project accounts and Project Financial Statements (PFSs) have been prepared in accordance with International Accounting Standards IFAC's or International Public Sector Accounting Standards (IPSAS), under the cash basis of accounting and give a true and fair view of the financial situation of the project and of resources and expenditures at the end of the period under audit;
- f)** The auditor must verify the eligibility of expenditures claimed under the Statements of Expenditures (SOEs) against the accounting records, supporting documents, and physical inspection of the goods and services procured. The auditor must also determine whether the expenditures included in the requests for replenishment are eligible for financing under the Loan Agreement;
- g)** Adequate internal control structure has been developed and maintained. For this end, the auditor should evaluate and obtain a sufficient understanding of the project's internal control structure, evaluate control risks and identify reportable conditions, including material weaknesses in the design and operation of internal control;
- h)** The auditor should provide a separate opinion on the accuracy and reliability of internal control procedures of the Statements Of Expenditures (SOE's) submitted during the period under audit to support related withdrawals;
- i)** The auditor should perform necessary tests to determine if the Ministry of Finance (MOF) has complied, in all material respects, with the terms of the Loan Agreement

with the Bank. All instances of noncompliance, as well as all indications of illegal acts must be identified and reported;

- j) The auditor should perform interim work throughout the year, and provide quarterly reviews of the unaudited records in order to identify, in a timely matter, areas that require the attention of the Project Management Unit (PMU);
- k) Verify that all fixed assets have been registered in the system and that a comprehensive list of these fixed assets is available showing a description, status, amount, purchase date, user and location of each fixed asset purchased under the project.

Although the auditor is not responsible for preventing or detecting irregularities including fraud, which is the responsibility of the Project Management Unit (PMU), the audit should be planned and conducted to give the auditors a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities including breach of regulations, fraudulent or illegal acts and expenditures. If such evidence exists, the auditor must report in writing to the Project Management Unit (PMU) at the Ministry of Finance (MOF) and to the World Bank without delay. In addition, The auditor will be expected to review all correspondence with the World Bank in relation to the project including copies of Aide Memoires, Mission reports, and assess progress on all financed projects issues.

6. Audit Deliverables

There are three main deliverables of the audit assignment

(A) Engagement Letter: The auditor should prepare an Engagement Letter, to help avoid misunderstandings, and send it to the Ministry of Finance (MOF) at the commencement of the assignment. The Letter should state the responsibility of the Project Management Unit (PMU) for specifying the timing and nature of Project Financial Statements, and disclosing requirements or other information that is expected to be provided under the audit arrangements. The Letter should also establish a time table for providing the audit opinion and reports and estimate staff time and audit fees as an indication of the intensity of the audit effort and the level of staff engaged on the assignment.

(B) Audit Report: The report should be submitted no later than (2) months after the end of the period under audit in order to give the Ministry of Finance enough time to review the report and request the Auditor to make necessary changes if any before sending the final audit report to the World Bank no later than three (3) months after the end of the period under audit. The Audit Report should include:

- a) A reference to the Project Financial Statements (PFS) being audited and a statement that those financial statements are the responsibility of the Project Management Unit (PMU) and that the auditors responsibility is to express an opinion on them;
- b) A statement that the audit was conducted in accordance with International Standards on Auditing and a reference to the procedures used and the requirements of those standards;

- c) A separate reference to the Statement of Expenditures (SOEs) for the period audited. The auditors must issue an explicit professional opinion on the eligibility of the expenditures submitted to support related withdrawals and whether they are adequately reflected on the Project Financial Statements (PFS);
- d) A separate opinion reconciling opening and closing balances of the Designated Account (DA) and stating whether the DA statement adequately reflects the flow of funds during the period audited, and if these have been only for the purposes intended under the project;
- e) A separate opinion on the accuracy and reliability of internal control procedures including the identification of reportable conditions (those that have an impact on the Project Financial Statements) and material weaknesses in the internal control structure of the Project Management Unit (PMU);
- f) A separate reference to the compliance of the Ministry of Finance (MOF) with the terms of the Loan Agreement and applicable laws and regulations related to the Project Management Unit (PMU's) financial activities. The instances of material noncompliance must be reported and discussed along with the impact of the exceptions on the PFS and the recommendations that will aid in correcting the deficiencies;
- g) An explicit professional opinion on whether the Project Financial Statements give a true and fair view of the Project's financial position at the end of the period under audit.

(C) Management Letter:

In addition to the Audit Report, the auditor will prepare a Management Letter, at the end of the period under audit, 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 and areas of weakness in Internal Control Systems and make recommendations for their improvement;
- c) Report on the degree of compliance of each of the financial covenants on the Loan Agreement and give comments, if any, on internal and external matters affecting such compliance;
- d) Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project; and
- e) Bring to the Ministry of Finance's attention any other matters that the auditor considers pertinent.

The letter, with recommendations to address the situation and insufficiencies should be made available to the Ministry of Finance (MOF) in time. In the second audit year, as annex to the Management Letter, the auditor will mention whether or not recommendations

issued on the previous Management Letter have been considered by the Ministry of Finance (MOF) and the Project Management Unit (PMU).

7. General Audit Requirements

Other aspects related to the audit engagement include:

- a) The Auditor should be registered as a Certified Public Accountant with the appropriate professional body in the country, must have substantial experience in auditing major projects in the country and have within his/her portfolio major corporations and commercial banks;
- b) The Financial Statements including the Audit Report should be received by the World Bank no later than three (3) months after the end of the period under audit;
- c) The Auditor will be given access to all the books, accounts, legal documents, correspondences and any other information associated with the project and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the World Bank. The Bank Task Team Leader can assist in obtaining these confirmations;
- d) The Auditor should become familiar with a copy of the World Bank's, "Disbursement handbook", and "Procurement Guidelines". Those documents will be provided by the Project Manager along with copies of the Loan Agreement, Disbursement Letter, Project Paper and the Project Operational Manual (PIM) especially the Project Appraisal Document (PAD) which detail the project's financial controls agreed upon with the Ministry of Finance (MOF);

In turn, the World Bank representatives have the right to meet with the Auditor at the Auditor's premises, to review the audit working papers and files and discuss the work performed and conclusions reached by the Auditor. The Auditor should not limit access in any way and should reply to all inquiries raised by the World Bank. Failure to comply with this provision may disqualify the auditor from dealing with projects funded or administered by the World Bank. Formal discussions should be arranged through the Project Management Unit (PMU).

8. Reporting Schedule

The External Auditor should provide the following deliverables as described below:

- Engagement Letter: Two weeks from the commencement of the assignment.

For each period under consideration the consultant shall furnish the following:

- Audit Report: No later than (2) months after the end of the period under audit.
- Management Letter: After performing the Audit and no later than (2) months after the end of the period under audit.