

TERMS OF REFERENCE

FOR THE AUDIT OF THE SUPPORT PEOPLE'S LIVELIHOOD THROUGH SUSTAINABLE FISHERIES PROJECT

FINANCED BY ISLAMIC DEVELOPMENT BANK

LOAN/GRANT NO. MDV1012

IMPLEMENTED BY THE MINISTRY OF ECONOMIC DEVELOPMENT AND THE MINISTRY OF FISHERIES, MARINE RESOURCES AND AGRICULTURE DURING

THE PERIOD FROM December 2022 TO JANUARY 2026

I. Project Background

The Government of Maldives (GoM) through the support of the Islamic Development Bank (IsDB) are implementing the Support People's Livelihoods in the Fishery Sector in Maldives through Sustainable Energy Project to upscale up to 200 fishing vessels in the Maldives.

The objective of the project is to contribute to achieving the Policy 5: Increase profitability from fishery activities ('Hama Agu' Policy) of the country's Strategic Action Plan (SAP) for 2019-2023, in particular the Strategy 5.2: Promote and facilitate access to technologies and techniques to increase profitability, improve catch quality, and reduce postharvest losses.

The project will be implemented by Ministry of Economic Development (MED) through a Project Management Unit (PMU). The primary role of the Project Management Unit i.e. the Ministry of Economic Development (MED) is to manage the technical aspect and support the end beneficiaries in selecting their equipment.. The SME Development Finance Corporation (SDFC) will be responsible for managing the line of finance under the coordination of the MED. The SDFC will manage fund received from the IsDB, while in turn to provide financing to fishermen for acquiring the identified Assets via Islamic financing and coordinate flows of Funds between the GoM and IsDB as well as end beneficiaries.

The project will include the following components.

Component A: Enhance Finishing Infrastructure

A1: Refrigerated Sea Water (RSW) systems: this component is about the design, the supply and the installation on vessels approximately 200 Refrigerated Sea water systems. The size of the RSW system is standardized in the market based on the storage capacity of the fishing vessel. In this project, targets vessels with capacity and the size to carry minimum 15 tons of fish. The minimum technical specifications and requirements will be prepared by the experts of the implementing agencies.

A2: Solar PV plants: this component is about the design, the supply and the installation on approximately 200 vessels solar PV plants to power the wheelhouse equipment, auxiliary lighting and other electrical uses. The technical study undertaken by the consultant shows that with the available space on the fishing vessels few kW only can be installed (between 5 to 10 kW maximum). For this kind of small size, standard solutions are provided by the vendors, only a few adaptations of the vessels are required which will be determined by the vendors in their offers during the selection process.

Component B: Strengthen Market Linkages: This component is about performing studies recommend strategies to promote and/or develop the participation of women in the fisheries business and to help expanding the international market for fish from Maldives. The initial budget will be USD100,000 and the consultancy services will be limited to 3 months activities related to assessment of market linkages and development action plans to: (i) expand the international market for fish from Maldives, (ii) participation of youth and women in the fisheries sector as well (ii) preparation of terms of reference for implementation. From this, the Ministry of Economic Development (MED) may decide to implement the action plans from its internal budget or using the project contingency as necessary. The Procurement of a firm for Consulting services for strengthening market linkage and assessment studies will be conducted following the Quality-and-Cost-Based Selection (QCBS) method among shortlist of international firms.

Component C: Support to Project Management Unit: This component is Supporting the establishment of the Project Management Unit and its associated expenses for implementing the project. Individual consultants including communications manager, Refrigerated Sea Water (RSW) expert, Renewable Energy Expert, Procurement Specialist and Islamic Finance Expert will be recruited as necessary. The procurement of RSW Expert, Renewal Energy Expert and Islamic Finance Expert will be conducted following Individual Consultant Selection (ICS) method using shortlist of International Consultants.

Component D: Financial Audit: An independent external auditing firm (locally registered) acceptable to the Bank will be recruited under this component to perform the projects' annual financial audit and certification of expenses related to replenishment of the Special Account.

Component E: Contingency Emergency Response Component (CERC): is a standalone zero-value component embedded in the project to allow the use of the present project resources to cover emergency response activities in case of disaster, pandemic or major flood etc. per the operation directive OD/2020 No.25.

II. Audit Objectives

The overall objective of the audit is to allow the auditor to express an independent and professional opinion on the financial position of the project (and, as applicable, the Executing Agency) to ensure that the funds provided have been used solely for their intended purposes; to express an independent and professional opinion on the adequacy of project internal controls; and to provide opinion on the compliance with the covenants of the financing agreement(s) and the applicable laws and regulations. Where present, the auditor should indicate the extent of any non-compliance to each financial covenant.

The auditor will express a professional opinion on:

- a) Project Financial Statements
- b) Special Account(s)
- c) SDFC compliance with terms of the line of financing;
- d) the Statement of Expenditures

The specific objectives of the audit are as follows:

- 1) Issue an opinion as to whether the project financial statements (PFS) and the supplementary financial information presents fairly, in all material respects, the financial position of the project, the funds received and the disbursements made during the period audited, as well as the cumulative disbursements at the end of the period, in accordance with the international accounting standards (as referred in section IV) and the requirements of the respective agreement(s) with the Islamic Development Bank.
- 2) Issue an opinion as to whether the expenditures reported are eligible for financing, and the funds have been used only for the purposes of the project.
- 3) Issue an opinion with respect to the PMU's compliance with the covenants of the financing agreements and the applicable laws and regulations.
- 4) Issue an opinion as to whether the Special Accounts (if any) used for managing the funds provided by the Bank presents fairly the availability of funds at the end of the period audited, as well as the transactions made during the same period, in accordance with the provisions for the use of the funds established in the corresponding agreements with the Bank.
- 5) Issue an opinion on the compliance of SDFC with the terms of line of financing while managing the fund received from IsDB to provide financing to fishermen for acquiring the assets via Islamic financing.
- 6) Issue an assessment with respect to the adequacy of internal control mechanisms of the project performed the Project Management Unit (PMU).

III. Scope of the Audit

The audit is considered as a special purpose audit of the project to be carried out in accordance with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC), or by the International Organization of Supreme Audit Institutions (INTOSAI)¹, having regard to relevant financing agreements and IsDB's particular reporting and procurement requirements.

The audit must include adequate planning, evaluation and testing of the internal control structure and mechanism, and obtaining sufficient evidence to give reasonable assurance that the financial statements are free from any material misstatements whether caused by fraud or other irregularities or error.

The auditor's examination should include an evaluation of the systems and operating procedures for accounting, custody of assets, control of environment, internal financial controls, financial reporting, and related systems. The Executing Agency shall make available all necessary documentations including relevant explanations in support of claims made in the financial statements, for the auditor to be able to understand and provide an independent and professional opinion.

The audit covers the financial transactions of the project during the period from December 2022 to January 2026.

In accordance with International Standards on Auditing, the auditor shall pay attention to the following:

- (a) **Fraud and Corruption:** The audit program will consider the risk of material misstatements resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected
- (b) **Laws and Regulations:** in preparing the audit approach and in executing the audit procedures, the auditor shall evaluate the EA and PMU's compliance with the provisions of law and regulations that might affect significantly the PFSs.
- (c) **Governance:** communicate to the EA and PMU management regarding significant audit issues related to governance.
- (d) **Risks:** with a view to reducing audit risk to a relatively low level, the auditor will apply appropriate audit procedures and handle anomalies/risks identified during their evaluation.

The auditors should pay special attention to the following requirements:

- 1) All Bank funds, Counterpart funds and Co-financier funds (if any) provided to the project have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purpose intended therein;
- 2) The Project Financial Statements have been prepared consistently in accordance with the applicable accounting standards, and give a true and fair view of the financial position of

¹ INTOSAI standards may be used if the audit will be performed by a government auditor acceptable to IsDB.

the project as at the year end and of its receipts and expenditures for the period ended on that date;

- 3) Goods, works and services for the project have been procured in accordance with the relevant financing agreements and in accordance with the Bank's policy and procedures and have been properly accounted for;
- 4) Compliance with specific covenants of the financing agreements;
- 5) Eligibility of expenditures claimed under the Statement of Expenditures (SoE) submitted to the Bank for reimbursement or replenishment of the Special Accounts, in accordance with the provisions of the financing agreements and the Bank's policy and procedures;
- 6) All necessary documents, records, and books of accounts relating to all project activities have been kept and there is a clear audit trail and references between the books of accounts and the financial statements presented to the Bank;
- 7) Comprehensive assessment on the adequacy and effectiveness of project internal control mechanisms to monitor expenditures and other financial transactions and ensure safe custody of project-financed assets and that they are being used for the intended purposes.

IV. **Annual Project Financial Statements (PFS)**

The auditor should verify that the project financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB), or other accounting standards compatible with IASB's, and give a true and fair view of the financial position of the project as at the year end and of the resources and expenditures for the audited period.

The financial statements consist of the following:

- 1) Statement of Accounting / Financial Policy;
- 2) Statement of Income / Cash Receipts²;
- 3) Statement of Expenditures / Cash Payments³;
- 4) Statement of Cash Flows / Cash Receipts and Payments;
- 5) Statement of Special Account (if applicable according to the financing agreements);
- 6) Notes to the Financial Statements, which includes a summarized description of the project, the project fiscal period, detailed analysis of the main accounts, summary of assets acquired or procured to date with project funds, and other reconciliation / explanatory notes. The reconciliation should include a list of Withdrawal Applications and reference the individual Withdrawal Application numbers, amounts and method of disbursement (advance, reimbursement or direct payment) of each Withdrawal Application.

² The funds received from the Bank to be shown as separate from the funds of the counterpart / co-financier ³ Expenditures financed by the Bank to be shown as separate from other expenditures, incurred for both the current year and accumulated to-date

An annex to the PFS should include a comprehensive list of all fixed assets purchased, with given dates, values and condition of the assets.

V. Statement of Expenditures (SoE)

In addition to the audit of PFSs, the auditor is required to audit all Statement of Expenditures used as the basis for submission of Withdrawal Applications to the Islamic Development Bank. The auditor is required to issue a separate audit opinion on the SoE indicating the extent to which the SoE procedure can be relied upon as the basis for disbursements under the project.

The auditor should carry out necessary tests to give reasonable assurance that expenditures claimed are eligible under the financing agreements and appraisal report. Where ineligible expenditures are identified as having been included in and reimbursed against the Withdrawal Applications, these should be separately noted and reported by the auditor.

As an annex to the PFSs, it should include a list of withdrawal applications submitted on the basis of the SoEs with their reference number and the amount involved.

VI. Special Account

The auditor is required to audit the activities of the Special Account(s) associated with the project to verify the degree of compliance with the Bank's procedures and guidelines for such accounts and the accuracy of the account balances. Activities to be examined include initial deposit and subsequent replenishments received from the Bank, interest earned, payments made, withdrawals related to project expenditures, transfers to the operating account(s) and reconciliation of the year-end balances.

The auditor will issue a separate audit opinion on the Special Account(s) indicating if the operations of the account(s) are in accordance with the financing agreement, the eligibility and correctness of financial transactions during the period under review, and the adequacy of internal controls surrounding the operation of the accounts.

VII. Audit Report

The audit report comprises the auditor's opinion on the PFSs, and other statements as mentioned in section V and VI above (as applicable). In addition, the audit opinion is required for the following (if necessary):

- 1) Compliance with IsDB procurement procedures;
- 2) Entities and beneficiaries that receiving the funds met the eligibility criteria of the project;

The auditor's reports should adhere to the report formats required by International Standards on Auditing (ISAs), or International Organization of Supreme Audit Institutions (INTOSAI), and to include the following matters:

- a) A title identifying the person or persons to whom the report is addressed;
- b) An introductory paragraph identifying the financial statements audited and the basis of accounting used for preparation of the financial statements;
- c) Separate sections, appropriately headed, dealing with:
 - Respective responsibilities of project management (or equivalent persons)
 - The basis of the auditor's opinion
 - The auditor's opinion on the financial statements;
- d) The manuscript or printed signature of the auditors; and
- e) The date of the auditor's report.

VIII. Management Letter

The auditor is required to prepare a management letter on the following issues:

- 1) Economy, efficiency and effectiveness in the use of resources;
- 2) Any material weaknesses in the accounting and internal control systems identified during the audit;
- 3) Recommendations to rectify the identified weaknesses;
- 4) Significant matters raised in previous audit recommendations which have not been dealt with satisfactorily or effectively by the PMU;
- 5) The degree of compliance with each of the financial covenants in financing agreement(s) and recommendations for improvement, including internal and external matters affecting such compliance;
- 6) The value of expenditures considered to be ineligible and either paid out of the Special Account(s) or which have been claimed from the Bank;
- 7) Matters which have come to the auditor's attention during the course of the audit which might have a significant impact on the implementation of the project;
- 8) Any other matters that the auditor considers pertinent, should be brought to the attention of the PMU and the Bank;

IX. General Information

The responsibility for preparation of the PFSs lies with the PMU and the PMU is also responsible for the following:

- (a) The selection and application of accounting policies. The PMU will prepare the PFSs in accordance with the accounting standards mentioned in section IV above;

(b) Implementing accounting, administrative and financial procedures documents in manuals.

The auditor is responsible for the formulation of an opinion on the PFSs based on their audit conducted in accordance with International Standards on Auditing (ISA). National Auditing Standards that comply with ISA in all material respects will also be accepted.

The audit report including the audited financial statements, the management letter and the EA's responses, should be prepared either in Arabic, English or French and be received by the Islamic Development Bank no later than six months after the end of the fiscal period. The auditor should therefore submit, on a timely basis, the relevant documentation to the EA, PMU, and the concerned ministries (if applicable). The Beneficiary is responsible for forwarding the copies of the audit report, the audited financial statements and the management letter to the IDB.

The auditor shall be given access to all legal documents, project documents, correspondence and any other information associated with the project and considered necessary by the auditor. Confirmation of amounts disbursed and outstanding at the Bank should also be obtained. The Operations Team Leader at the Bank can assist in obtaining those confirmations.

The auditor should not limit the access of information in any way and must reply to all inquiries raised by the Islamic Development Bank's representative. Formal discussion will be arranged through the EA's office. The Islamic Development Bank will have this right during the period of the audit and within two years after completion of the audit.

It is recommended that the auditor is familiar with the loan agreement, project appraisal reports, and the IsDB's financial management, disbursement and procurement policies and procedures.

X. Employment Authority and Independence

The auditor shall be provided the necessary documentation to authorize him/her to carry out an independent and professional audit on the financial position of the project. The auditor must disclose whether it is acting on behalf of, or part of a larger authority and any issues or relationships that might compromise their independence.

The auditor should be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity and should not have any financial, personal or business relationship with the entity during the period covered by the audit.

XI. Auditor and Audit Staff Competence

The audit firm should be registered and have a license from a national or regional professional accountancy body. The firm should have relevant experience in accounting and auditing of projects funded by international financial institutions or/and multilateral development banks. The key audit team shall comprise at minimum:

- a) An Audit Manager must have a minimum Master's Degree in Accounting, Finance, Financial Management, or suitable equivalency from a recognized university or professional body such as ACCA, CPA or CIMA with at least 15 years of experience in auditing and has sound knowledge of IFI / MDBs financing procedures.
- b) A Team Leader must have a minimum Master's Degree in Accounting, Finance, Financial Management, or suitable equivalency from a recognized university or professional body such as ACCA, CPA or CIMA with a minimum of 10 years of experience in auditing.
- c) An Assistant Auditor must have a minimum Bachelor's Degree in Accounting, Finance, Financial Management, or suitable equivalency from a recognized university or professional body such as ACCA, CPA or CIMA with a minimum of 2 years of experience in auditing.

XII. Engagement Letter

The auditor is required to prepare an engagement letter. The form and content should generally include reference to the matters addressed in this document. In addition, it should state the management's responsibilities for the preparation of the PFSs, the auditor's responsibilities for the opinion of the PFSs and internal controls, the amount of audit fees, and the timetable for providing the audit reports.

XIII. Audit Timing

The assignment is expected to commence on or about in May 2023 and is to be completed on or about 31 January 2026, where audit reports must be submitted for the interim and annual audits as per the requirement in Section XIV **I**

XIV. DELIVERABLE

a. Interim Audits

The auditor must submit an audit report as specified in Section VII and a Management Letter as in Section VIII within 45 days of end of each calendar quarter or upon the requirement of audit for the replenishment request.

During the early stage of project implementation, an audited financial statement or a completed annual report of the project may not be available. In these circumstances, an interim audit certification from the project auditors that verifies the correctness of the statement of eligible expenses incurred and the supporting bank and reconciliation statements for the initial advance (or, as applicable, the first replenishment) is required for the purpose of processing a replenishment request.

a. Annual Audits

Auditor must conduct annual audits as per Section III and the auditor must submit an audit report as specified in Section VII and a Management Letter as per Section VIII. The project will be commenced in December 2022 and terminates in January 2026. The initial annual audit and the final audit is expected to cover 13 months.

XV. TENTATIVE PAYMENT SCHEDULE:

Payment to respective deliverables will be paid to the auditor within 45 days of successful delivery of the services specified in Section XIV.