



Ministry of Environment, Climate Change and Technology
Male', Republic of Maldives

TERMS OF REFERENCE FINANCIAL AUDITOR

Greater Male' Waste Management Improvement and Waste to Energy Project (MAL-1010)

Project Background

1. The Government of Maldives obtained a Loan from the Islamic Development Bank to finance the implementation of Greater Male' Waste Management Improvement and Waste to Energy Project, referred as "the Project". The Ministry of Finance is the Governing Body and is entrusted in the execution and supervision of the implementation of the project through a Project Implementation Unit ("PIU") located within the Ministry of Environment, Climate Change and Technology. The legally binding terms and conditions of the financing are in the financing Agreement no. MAL-1010, which may be amplified by supplemental letters and /or an amendment. The Project Appraisal Document (PAD) Report no. MDV1010 is also a useful source of information, although it is not legally binding.

Context

2. According to clause 2.2 of the Financing Agreement no. MAL-1010, (e.g., Executing Agency) the Governing Body 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).
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 at the end of each financial year and funds receipts and expenditures incurred during the period then ending. (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 Financing Agreement no. MAL-1010.

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:
 - a) All funds provided to the Project have been used, accounted for and classified in accordance with the relevant financing agreements;
 - b) All the transactions related to the project are reflected in the PFS issued according to Generally accepted Accounting Policies;
 - c) Goods, works and services financed have been procured in accordance with the relevant financing agreement;
 - d) 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;
 - e) 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);
 - f) Eligibility of expenditures claimed under Statement of Expenditures submitted to the Islamic Development Bank for replenishment. This is in addition to substantiation of these expenditures;
 - g) 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;
 - h) Counterpart funds have been provided and used in accordance with the relevant financing agreements, and only for the purposes for which they were provided;
 - i) 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 at the end of each financial year 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.)

I. Audit Deliverables

8. There are two main deliverables for each annual audit engagement:

- (i) **Audit Report** which shall include an 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** which should 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.

Deliverable schedule and payment method

Details	Date of Submission
Financial Audit 2022 & 2023	Within 90 days of end of financial year
Financial Audit 2024	Within 90 days of end of financial year
Financial Audit 2025	Within 90 Days of end of financial year

Payment Method: Lump-sum payment shall be made and each payment shall be linked with specific deliverables

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.

II. 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.

III. 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 Ministry of Environment, Climate Change and Technology. 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.