African Development Bank

Fiduciary and Inspection Department

TERMS OF REFERENCE TO AUDIT OR REVIEW OPERATIONS FINANCED BY THE BANK GROUP



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OVERVIEW

"The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved through expression of an opinion by an independent auditor on whether the financial statements are prepared, in all material respects, and in accordance with an applicable financial reporting framework. In the case of most general-purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs and relevant ethical requirements enables the auditor to form that opinion"[1].

The General Conditions of the African Development Bank Group stipulate:
"….The records and accounts shall be kept in accordance with the Bank's Guidelines for financial reporting and auditing of project/programs and shall be audited and certified for each financial year by an independent auditor satisfactory to the Bank whose terms of reference have been approved by the Bank….."[2]

In addition, the Bank's Financial Management Policy also stipulates:
"The Bank requires borrowers to provide annual audited financial statements that reflect the activities of operations financed by the Bank. Annual financial statements should be prepared in accordance with accounting standards acceptable to the Bank. It further requires that the scope of the audit and independent auditors selected to conduct the audit should be acceptable to the Bank. The Bank requires the borrower to submit annual audited financial statements to the Bank no later than 6 months after the end of the reporting period"[3]

It is worth noting that operations financed by the Bank Group may vary from huge projects to small operations, and as a result, the level of assurance required might not be the same. In that regard, the scope of the reviews, the level of audit risk and diligences employed by an auditor may differ depending on the size and complexity of an operation. From both the Bank and Borrower perspectives, it would not be cost-effective to request an audit where a "review" would suffice considering the small nature of an operation with less volume of transactions.

As a result, two (2) separate Terms of References (TORs) have been developed in line with the above considerations to guide the audit and review of operations financed by the Bank using either the Investment Lending Operations (ILOs) or the Results-Based Financing (RBFs)[4].

Specifically, whereas the first TOR covers audit of Investment Lending Operations (ILOs) and Result-Based Financing (approved by the Board in November 2017); the second TOR on the other hand would guide the "review" of Small Operations[5] and Trust Funds.

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[1] ISA 200 : *"Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing"*

[2] General Conditions : Section 9.09 (b)

[3] Financial Management Policy in African Development Bank Group Financed Operations (2014) ADB/BD/WP/2014/08/Rev.2; ADF/BD/WP/2014/08/Rev.2

[4] PBOs are audited on a case-by-case basis and are not concerned with the present TOR. Refer to " Financial Management Manual for Bank Group Public Sector Operations" (SNFI, Revised, 2019)

[5] According to "Financial Management Guidelines for Investment Operations" (SNFI, 2016), an operation is "small" when its total amount does not exceed UA1,000,000.

The quality of an audit report depends (*inter alia*) on: (i) the capacity of the auditor to undertake the audit; (ii) the professional experience of each member of the audit team; (iii) the quality and the clarity of the TOR of the audit to be undertaken; and (iv) the auditee's cooperation to contribute to the achievement of a satisfactory audit.

The TORs highlight key elements to be covered in an audit or a review of operations financed by the Bank. Borrowers should be expected to use these as guide when drafting the audit TOR for projects/programs financed by the Bank. However, the TORs should be considered as minimum requirements. As a result, they do not prevent the auditor to comply with International Standards on Auditing, including those not mentioned in these TOR. Similarly, the borrower will consider including in the TOR specific diligences that the auditor would undertake to capture specific characteristics of the project.

When Projects/programs are managed in using the country PFM systems in full, the current TOR will not apply. The Country Supreme Audit Institution will audit the State Financial Statements (that would include the Bank's financing) in accordance with their mandate.

TERMS OF REFERENCES FOR THE AUDIT OF BANK'S FUNDED OPERATIONS, EXCLUDING SMALL OPERATIONS AND TRUST FUNDS

1.0 BACKGROUND

1.1 The African Development Bank Group (the Bank) has been supporting the ECOWAS Centre for Renewable Energy and Energy Efficiency (ECREEE) in its developmental efforts since 2014. A Grant of UA 1.39 million was approved in December 2021 to finance the Desert-to-Power Initiative West Africa Regional Energy Program – Phase 1 (WAREP Phase 1).

1.1 The Bank's Desert-to-Power Initiative is designed to harness the abundant solar energy in the Sahel to generate an additional 10 GW of capacity to provide clean electricity to 250 million people. WAREP Phase 1 seeks to catalyse growth in access to electricity by addressing primarily financial barriers to private sector-led distributed power generation and mini-grid development from renewable energy. The development objective is accelerated regional-scale development of solar generation, transmission and decentralized energy projects across the Sahel Region. The Program comprises: (i) pre-feasibility studies for the Sahel Backbone and associated solar parks to improve regional energy trade; (ii) preparation activities for the ECREEE Rural Electrification and Mini-Grids Program to expand mini-grid investments and generate economies of scale; and (iii) project management to ensure quality control and supervision. Component 1 is implemented by the West Africa Power Pool (WAPP), Component 2 by ECREEE, and Component 3 through project management activities by WAPP and ECREEE. Component 2 includes clean mini-grid feasibility studies in Burkina Faso, Guinea-Bissau, Liberia, Mali and Niger, national validation workshops, and regional capacity-building and certification activities. A Program Implementation Unit was established within ECREEE's Directorate of Operations, with responsibility for technical implementation, administration, financial management, procurement, quality control, monitoring and evaluation, and reporting. The Bank entirely finances the project. The first disbursement occurred on 15 September 2022. As of 30 June 2026, disbursements totalled UA 1,097,144.27, representing 78.93% of the Grant amount. In accordance with Section 8.03(b) of the Grant Agreement, the audit period is **the project closure (January 2026 to December 2026, including the grace period from January 1st to June 30th, 2027)**.

2.0 OBJECTIVES OF THE AUDIT OF BANK OPERATIONS

2.1 In conducting an audit of financial statements, the overall objectives of the auditor are:

a) To obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conduct of an audit allows the auditor to express an opinion on whether the financial statements are prepared in all material respects, in accordance with an applicable financial reporting framework;

b) To provide reasonable assurance that the project books of accounts provide the basis for preparation of the Project Financial Statements (PFSs) by the Project/Program Implementing Unit (PIU) and are established to reflect the financial transactions in respect of the project and

that the PIU maintained adequate internal controls and supporting documentation for transactions.

c) To enable the auditors to express an independent professional opinion on the financial position of the Project, to assure that the Project funds have been used for their intended purposes and in accordance with the provisions of the Loan/Grant Agreement(s).

d) To obtain reasonable assurance about the achievement of project/program objectives by matching project/programs physical outputs and achievements to funds disbursed and the timing of the flows. The project/program technical report provides sufficient information and data to enable users to fully appreciate project/program achievements; and

e) To report on the financial statements and communicate as required by auditing standards in accordance with the auditor's findings.

3.0 STAKEHOLDERS RESPONSIBILITIES

3.1 **PROJECT MANAGEMENT:** The responsibility for the preparation of PFSs including appropriate disclosure and project/program technical progress report lies with the Project/program Executing Agency. The Management is also responsible for;

a) The selection and application of the financial reporting framework in the preparation of the financial statements, that could be either; the International Public Sector Accounting Standards (IPSASs), the International Financial Reporting Standards (IFRS), or National Accounting Standards;

b) Implementing internal control procedures that enable the preparation of financial statements that are free from material misstatement whether due to fraud or error;

c) Implementing technical project/program activities and preparing project/program technical progress reports; and

d) Providing the auditor with :

i. Access to all information relevant to the preparation of the financial statements such as records, documentation and other matters;

ii. Additional information that the auditor may request from management for the purpose of the audit;

iii. Access to all project/program implementation sites for physical inspection and appreciation of project/program progress at least during the second and the last audit; and

iv. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence

3.2 **AUDITORS:** The auditors are responsible for formulation and expression of opinion on the PFSs.

a) The auditors would conduct the audit of the project in accordance with International Standards on Auditing (ISA), as promulgated by the International Auditing and Assurance Standards Board (IAASB), or International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI) or National Auditing Standards when these have been found to be acceptable to the Bank.

b) In accordance with these standards, auditors would request the Executing Agency for a written confirmation concerning representation made in connection with the audit including; maintenance of proper internal control systems for the project/program, as well as acceptable documentation for all financial transactions, and the preparation of the applicable PFSs.

4.0 SCOPE OF THE AUDIT

4.1 The audit will be carried out in accordance with the Standards specified in 3.2 above. It will include such tests and controls as the auditors consider necessary under the circumstances.

4.2 To demonstrate compliance with the agreed project/program financial management arrangements and requirements, the auditor is expected to carry out tests to confirm that:

(a) All funds including counterpart funds and other external funds (in case of co-financing) have been used in accordance with the conditions of the financing agreement(s), with due attention to economy and efficiency and only for the purposes for which the funds were provided;

(b) Goods, works and services financed have been procured[6] in accordance with relevant financing agreement(s) and have been properly accounted for ;

(c) All appropriate supporting documents, records and books of accounts relating to all project/program activities have been kept. The auditor is expected to verify that all reports prepared and issued during the period were in agreement with the underlying books of accounts;

(d) Special accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and in accordance with the Bank's disbursement rules and procedures; and funds disbursed out of the special accounts were used for the intended purpose as specified in the financing agreement (s);

(e) The financial statements have been prepared and approved by project/program management in accordance with applicable financial reporting framework;

(f) National laws and regulations (including country PFM systems) have been complied with, and that the financial and accounting procedures approved for the project (including; accounting and procedures manual etc.) were followed and used;

(g) Project/program's fixed assets are real and properly valuated and project/program property rights or related beneficiaries' rights are established in accordance with loan conditions;

[6] Depending on the complexity of certain procurement activities, the auditors may integrate, in the audit team, technical experts during the period of the contract. In such a case, the Auditors will conform to ISA 620: (Using the Work of an Auditor's Expert).

(h) Ineligible expenditures have been properly identified and reimbursed or refunded to the Special Account (SA); and

(i) Project/program physical progress is: (i) consistent with funds disbursed, (ii) technically in conformity with project/program designs and (iii) adhering, as far as possible, with project/programed time estimates.

(j) Determine if beneficiaries have received the benefit of payments made from the SA in respect of goods purchased, works delivered and services provided.

4.3 The assessment of internal control should include:

i. Testing the effectiveness of controls with regards to payments for goods, works and services for the period reviewed, based on a representative sample;

ii. Testing the effectiveness of controls with regards to the procurement processes of the project/program based on a representative sample;

iii. Testing the effectiveness of controls (including existence of adequate security, e.g. insurance etc.) over assets financed by the project/program and ensuring these assets are being used for the intended purposes;

iv. Testing the effectiveness of good practice in the use of project/program fixed assets and other resources;

4.4 In complying with International Standards on Auditing, the auditors shall pay attention to the following:

- *Fraud and Corruption* : In accordance with ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements) the auditors shall identify and evaluate risks related to fraud, obtain or provide sufficient evidence of analysis of these risks and assess properly the risks identified or suspected;

- *Laws and Regulations:* In preparing the audit approach and in executing the audit procedures, the auditor shall evaluate the compliance with the provisions of laws and regulations that might affect significantly the PFSs as required by ISA 250 (Considerations of Laws and Regulations in an Audit of Financial Statements). In this context he will inquire from management whether the entity is the subject of any legal actions threatened, pending or in process; and assess the effect thereof on the financial statements and program/project resources and development objectives.

- *Governance* : Communicate with the Management responsible for Governance regarding significant audit issues related to governance in accordance with ISA 260: (Communication with those charged with Governance); and

- *Risks:* To reduce audit risks to a relatively low level, the auditors will apply appropriate audit procedures and address anomalies/risks identified during their assessment. This is in accordance with ISA 330 (The Auditor's Responses to Assessed Risks).

5.0 FINANCIAL STATEMENTS

5.1 The auditor shall verify that the PFSs have been prepared in accordance with agreed accounting standards (refer to paragraph 3.2 above) and give a true and fair view of the financial position of the project at the relevant date.

- The auditor shall verify and ensure the PFSs have been presented using the Borrower's functional currency for financial reporting purposes. Where functional currency is not used for the purpose of PFSs presentation, complete exchange translation is required. The auditor shall obtain the rationale and justification from Management for using a presentation currency different from the functional currency.

5.2 The project/program financial statements will be prepared by project/program management in accordance with the applicable financial reporting framework and shall include:

(i) **Statement of Financial Position** showing accumulated funds of the project/program, bank balances and other assets and liabilities of the project/program as at the close of each fiscal year;

(ii) **Statement of Income and Expenditure** (for revenue earning entities) or **Statement of Receipts and Payments** (for non-revenue earning project/programs)[7];

(iii) **Cash Flow Statement** that should disclose the cash flows during each fiscal year;

(iv) **Notes to the Financial Statements** describing the applicable accounting principles in place and a detailed analysis of the main accounts.

5.3 As an annex to the financial statements mentioned above, the report shall include:

(a) A reconciliation between the amount shown as "received from the Bank" and that shown as having been disbursed by the Bank. The reconciliation should indicate the methods used for disbursement, i.e. special account, direct payment reimbursement guarantee or reimbursement methods matching the disbursement methods with those recommended in the appraisal report and the disbursement letter .

(b) A reconciliation statement for the special account (SA) showing amount received from the Bank, amount justified to the Bank, ineligible expenses made, amount to be justified, and bank balance. For the final audit, the project shall attach the SA reconciliation statement using the format contained in annex 12 of the Bank's Disbursement Handbook.

(c) An extract of the fixed asset register showing a comprehensive list of all fixed assets purchased to date using project/program funds. The list should include details such as; date of purchased, acquisition cost, unique identification marks/labels, asset location, date verified, asset condition and any other remarks.

[7] Any revenue generated by the Project/program e.g. sale of bid documents, disposal of project/program assets, bank credit interests earned in the special account and fees earned should be accounted for and disclosed.

6.0 SPECIAL ACCOUNTS AND OTHER PROJECT/PROGRAM BANKS ACCOUNTS

6.1 The auditor shall review and examine all documents relating to the use of the SAs to ensure:

a) All Statements Of Expenditures (SOE) and reconciliation statement of special account submitted in support of SA replenishments are consistent with the supporting documentation;

b) The internal control governing the use of SA is adequate and could be relied upon to justify continuous requests for replenishment;

c) For each audit engagement, based on the outstanding balance reported by the Bank at the end of the financial year, the borrower will avail to the auditor, corresponding SOE justifying use of the amount unjustified in AfDB Books, for the audit in question.

d) The auditor is required to review specific SOE, reconciliation statement of special account and the related supporting documents and report on its accuracy and objectivity in the Management Letter. Any discrepancy – if material will be reported likewise in the Management Letter. The SOE and reconciliation statement of special account will be attached as an annex to the financial statements in the auditor's report.

e) Any inter-account funds transfers' between the SA and other project bank accounts on one hand; and between all project bank accounts (including SA) and other non-project accounts during the financial year are justified.

f) For last audit engagement, determine whether all SA liquidation procedures have been complied with including: submission of all SOEs covering use of SA resources, transfer of unutilized SA balances and closure of SA, and final reconciliation statement of special account as an annex to the report, using the format contained in annex 12 of the Bank's Disbursement Handbook.

6.2 **Counterpart contribution:** The auditor shall review counterpart contribution to ensure;

a) Agreed cash contributions were budgeted in the central government annual budget and released on time to the project/program.

b) Ensure all counterpart funds have been used for the purpose of the project/program

c) Adequate basis exists for valuation of In-kind counterpart contribution for inclusion into the financial statements.

7.0 TECHNICAL REVIEW

7.1 In accordance with ISA 620[8], the auditor shall review the physical progress of the project/program to ensure that:

[8] The International Standard on Auditing, ISA 620 deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

(a) The achievements described in technical progress reports physically exist and adhere to required and agreed upon technical specifications;

(b) The costs of the activities are in line with the project/program cost estimates in the project document(s);

(c) project/program completion times are in line with the agreed life of project/program.

8.0 AUDIT REPORT

8.1 The audit report will comprise (i) A Report on the Financial Statements, and (ii) A Management Letter

a) The report on the financial statements will comprise:

i. the auditor's opinion on the project/program financial statements and

ii. a complete set of project/program financial statements and other relevant statements as indicated in section 5.3 above.

b) In addition to the report on the financial statements, the auditor will also report on, but not limited to, the following, in the management letter:

i. Give comments and observations on the accounting records, procedures, systems and controls that were examined during the course of the audit;

ii. Identify specific deficiencies and areas of weakness in systems and controls and make recommendations for improvement;

iii. Report on the degree of compliance with each of the financial covenants in the Loan/Grant agreement and give comments, if any, on internal and external matters affecting such compliance;

iv. Quantify the materiality and report on expenditures that are considered ineligible and were either paid out of the special account (s) or claimed from the Bank by the Borrower;

v. Report on the pace of project/program progress and provide appropriate comments, if any, on internal and external factors affecting project/program implementation and achievement of expected results;

vi. Report on the quality of project/program achievements (general adherence to specifications and expectations) and provide comments and recommendations, if any, on ways to improve performance;

vii. Report on implementation progress in line with the life of the project/program and provide comments, if any, on internal and external factors affecting the likely completion of the project/program;

viii. Report on the effectiveness in management of the SAs (including strict adherence to requirements of the disbursement handbook etc.). For specific case of the last project

audit, indicate the status of and actions taken by project/program management to clear all outstanding unjustified SA balances, as well as closure of the SA and transfer of any unutilized balances to the Bank.

ix. Report on the implementation status of recommendations pertaining to previous period audit reports;

x. Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the project/program; and

xi. Bring to the borrower's attention any other matters that the auditor considers pertinent.

8.2 The management letter will include reactions/comments from Project/program Management Team on the recommendations and weaknesses noted by the auditor.

9.0 REVIEW OF THE AUDIT REPORT

9.1 The Bank shall follow internal review processes and undertake a comprehensive review of the audited PFSs and the Management letter, and provide feedback to the Borrower with appropriate recommendations including acceptability or otherwise of the audited PFSs.

9.2 In the case of the audit carried out by a private auditor, payment of the audit fees shall be made through direct payment upon review, clearance and acceptance of the audit report by the Bank;

9.3 The Bank reserves the right to request and review the audit working papers and any other information related to the work done by the auditor, as part of Bank's internal review process to determine acceptability of the audit report.

10.0 GENERAL INFORMATION

10.1 The audit report should be received by Executing Agency no later than the date agreed in the relevant audit contract, to ensure submission of the report to the Bank within the timeframe stipulated in the legal/financing agreement.

10.2 The auditor should be given access to legal and financial documents, correspondence and any other information associated with the project/program and deemed necessary by them. Direct confirmation of amounts disbursed and outstanding at the Bank should also be obtained.

10.3 The auditor should be given access to all project/program implementation sites and all project/program activities for physical progress inspections and technical evaluations as may be necessary.

10.4 As part of the audit exercise, it is recommended that the auditor obtains the following documents that may have been prepared by the Bank or the project/program:

(a) General Conditions Applicable to Loan, Guarantee and Grant Agreements;

(b) Special conditions if applicable

(c) Loan/ Grant Agreement;

(d) Project/program Appraisal Report;

(e) Financial Management Policy for Bank Group Funded Operations

(f) Financial Management Manual;

(g) Disbursement Handbook;

(h) Aide Memoires and official communications with the Bank;

(i) Procurement rules and procedures for works, goods and services;

(j) Project/program technical implementation studies;

(k) Project/program Operational Manual

(l) SOEs used to request/justify the replenishment of the special accounts and reconciliation statement of special account.

(m) Interim financial reports used for disbursement requirement or for financial reporting requirements

(n) Project/program technical progress report;

(o) Internal audit reports.

10.5 The auditor is encouraged to meet and discuss audit related matters with the Bank project/program team at the beginning and at the end of the engagement.

11.0 AUDITOR'S EXPERIENCE AND QUALIFICATIONS

11.1 The auditor should be registered and have a license from a national or regional professional Accountancy Body. He should have relevant experience in accounting and auditing of development project/programs, especially donor-funded operations.

11.2 The key audit team will comprise, at least:

(a) **Audit Manager**: Professional Accountant (CA, ACCA, CPA, Expert Comptable, etc.) with a minimum of 10 years post qualification experience of which 5 years should have been in the audit of either, African Development Bank or other multilateral donor-funded project/programs.

(b) **Audit Supervisor**: Professional Accountant (CA, ACCA, CPA, Expert Comptable, etc.) with a minimum of 5 years post qualification experience of which 3 years should have been in the audit of either, African Development Bank or other multilateral donor-funded project/programs.

(c) **Audit Senior**: Partly qualified Accountant with a minimum of 3 years working experience in an audit firm, of which 2 years should have been in the audit of either, African Development Bank or other multilateral donor-funded project/programs.

(d) **Technical Audit senior**: Where necessary, a technically qualified professional in the field of expertise with a minimum of 5 years working experience in the relevant sector. Experience in the audit of multilateral donor-funded project/programs or the conduct of technical audits will be an added advantage;

(e) **Procurement Auditor:** Where necessary, a certified procurement professional (CIPS or its equivalent), with a minimum of 5 years working experience in the conduct of procurement audits and/or execution of procurement activities in multilateral donor-funded project/programs. .