

COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION BEIRUT - LEBANON

Terms of Reference (TOR) Audit of World Bank- Supported Projects for the Year 2024

1. The Lebanese Republic (Borrower) has obtained from the World Bank (the Bank) **five loans (including GCFE grants) for the cumulative value of around US\$ 1,224 Million (\$696.33 Million following the partial cancellation of WSAP and the BRT cancellation)** to finance the implementation of the Greater Beirut Water Supply Project, The Water Supply Augmentation Project, The Lake Qaraoun Pollution Prevention Project, The Roads and Employment Project and The Greater Beirut Public Transport Project. The audit of World Bank supported projects shall cover the year 2024.
2. Except for the second and third components of the Greater Beirut Water Supply Project, all Projects are carried out by the Council for Development and Reconstruction (CDR) with the Borrower's assistance. The Borrower makes the proceeds of the Loans/Grants available to the CDR as set forth in the respective Loan/ Grant Agreements. The CDR is entrusted with the execution and supervision of the implementation of the projects through a Project Management Unit (PMU) located within the CDR. For the Greater Beirut Water Supply Project (GBWSP), CDR is only responsible for the Bulk Water Supply Infrastructure component implementation (Component 1). The other two components are implemented by the Beirut Mount Lebanon Water Establishment (BMLWE) who also generates all the reporting to the Bank.
3. The legally binding terms and conditions are in Loan /Grant agreements, which may be amplified by supplemental letters and/or Loan /Grant amendments. The Project Appraisal Document (PAD) Reports and the operational manuals of the above-mentioned projects are also a useful source of information, although they are not legally binding.
4. Below is a brief description of the projects' objectives:
 - **The Greater Beirut Water Supply Project (IBRD#79670)** loan objective is to increase the provision of potable water to the residents in the project area within the Greater Beirut region, including those in the low-income neighborhoods of Southern Beirut, and to strengthen the capacity of the Beirut Mount Lebanon Water Establishment (BMLWE) in utility operations. The World Bank is funding US\$ 200 Million of which US\$ 161.2 Million are under CDR's control, following the reallocation between disbursement categories dated December 22, 2022.
 - **The Water Supply Augmentation Project (IBRD#8443)** seeks to increase the volume of water available to the Greater Beirut and Mount Lebanon area. This is a US\$474 Million IBRD Loan, including an amount of US\$155 Million financing land acquisition and resettlement compensations. It is to be noted that the project has two designated accounts: **D.A."A"** for the works, goods and other services and **D.A."B"** for the expropriation compensations. however expropriation compensations are still being settled from the Operational Account (**O.A.**). On September 5, 2020 the World Bank cancelled a portion of USD 244 million of the allocated (undisbursed) amount under Category (1) of the Loan related to the construction of the Dam. Category 2 (the Expropriation Part) was unaffected by the cancellation. On February 17, 2022, the World Bank decided to suspend disbursements under Category (1).
 - **The Lake Qaraoun Pollution Prevention Project (IBRD#8637)** seeks to reduce the quantity of untreated municipal sewage discharged into the Litani river and to improve pollution management around Qaraoun Lake. This loan is effective since December 13, 2016 and is a US\$ 55 Million loan funded by the World Bank.

- **The Roads and Employment Project (IBRD#8705-TF0A4481)** seeks to improve transport connectivity along paved road sections and create short term jobs for Lebanese and Syrians. This loan is effective since October 30, 2018 and is a US\$ 200 Million loan funded by the World Bank consisting of the following(a)- a non-concessional portion of the Loan in an amount of US\$ 154.6 Million (b)a concessional portion of the Loan in an amount of US\$ 45.4 Million.
- **The Greater Beirut Public Transport Project (IBRD#8838- TF#0A7880)** loan objective is to improve the speed, quality and accessibility of public transport for passengers in Greater Beirut and at the city of Beirut's northern entrance. This loan is effective since July 31, 2019 and is a US\$ 225.2 Million loan and 69,8 Million grant funded by the World Bank. No disbursement was made during the year 2024. On June 30, 2022 the World Bank cancelled the undisbursed loan amounting to US\$ 283.67 Million.

Context

5. According to Schedule 2 section II, part B of the Loan and Grant agreements, the Governing Body of the Project through the PMU shall at all times maintain a financial management system, including records and accounts, and prepare project financial statements in a format acceptable to the World Bank and adequate to reflect the operations, resources and expenditures related to the Projects. Also the Governing body shall maintain records and supporting documents for all expenditures with respect to which withdrawals from the Loan/ Grant account were made (the records should reflect all categories of withdrawals, SOEs, direct payments and replenishments of Special/Designated Accounts). For all projects except the Greater Beirut Water Supply Project, only the CDR will be required to comply with the World Bank Procurement Guidelines for the procurement of goods and services to the Projects. For the GBWSP the Beirut & Mount Lebanon Water Establishment should abide by the World Bank's Procurement Guidelines while implementing the related components of the projects.
6. The General Purpose Project Financial Statements ("PFS")¹ are comprised of a (i) Statement of Cash Receipts and Payments for the year then ending and cumulatively from inception date up till the year ending including funds received from various sources (ii) Statement of Cash Payments classifying the uses of funds i.e. project expenditures by component showing yearly and cumulative balances (iii) Reconciliation statement for the balance of the Project's Special/ Designated Account as of year end showing the opening & closing balances (iv) Statement of Cash payments made using Statements of Expenditures (SOE) basis as defined in the Loan/Grant agreements (v) Contract listing of all contracts showing amounts committed, paid, and unpaid under each and (vi) accounting policies and explanatory notes.
7. The Loan/ Grant Agreements require that the records, accounts and project financial statements mentioned above and the records and accounts for the Special/Designated Account 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 should be submitted to the World Bank as soon they become available but not later than six months after the end of the fiscal year. In fulfillment of this statutory requirement, the Governing Body should engage a qualified independent audit firm according to terms of reference and scope of work acceptable to the World Bank, as summarized below.

Objective

8. The primary objective of the audit engagement is to enable the Auditor to express a professional opinion as to whether (a) the project financial statements give a true and fair view of the state of the Project's affairs in accordance with International Public Sector Accounting Standards, under the cash basis of accounting (b) all funds provided to the Project including replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures, are eligible, have been used, accounted for, and classified in accordance with the relevant Loan/ Grant Agreements (c) internal control over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures can be relied upon to support the related withdrawals (d) Replenishments and disbursements made under the Special/Designated account has been used exclusively for payment of eligible expenditures and have been accounted for, and classified in accordance with the relevant Loan/ Grant Agreements (e) The Projects were in all material respects in compliance with the financial covenants of Loan/ Grant agreements, World Bank disbursement guidelines and the World Bank Procurement Guidelines.
9. For this purpose, the Auditor shall carry out whatever necessary examinations of the statements and underlying records and internal control systems.

Scope

10. The audit subject to this Terms of Reference is considered as a special purpose audit engagement for which, in addition to compliance with international standards as explained below, the Auditor needs to take into consideration the effectiveness of internal controls over financial reporting, and compliance with World Bank Reporting requirements, Disbursement guidelines, and Procurement Guidelines in order to provide assurance on the financial management and procurement arrangements of the projects in accordance with ISA 800. Accordingly, the Auditor should review and assess the conclusions drawn from the audit evidence during the special purpose audit engagement as the basis for the expression of a clear written audit opinion. Moreover, the Auditor should obtain from management a Representation Letter as evidence of management's assertions in the project financial statements in accordance with ISA 580.
11. The audit will be carried out in accordance with International Standards on Auditing, having regard to relevant Loan/Grant agreements and World Bank particular requirements. The audit shall provide assurance on the effectiveness of the internal controls surrounding statements of expenditure. The scope of the audit procedures must be aligned with the World Bank scope requirements to ensure compliance with the engagement. Planning and conducting the audit will be in accordance with a risk based framework and a detailed and documented audit work program. The audit coverage will consider the risk of material misstatement as a result of error or fraud. A description of the nature, timing, and extent of the planned risk assessment procedures sufficient to assess the risk of material misstatement should be properly documented. A documentation of the assessment and determining of the audit materiality (ISA 320) and its relationship with audit risk when conducting an audit should be done. The audit program should include procedures, which are designed to provide reasonable assurance that material misstatements are detected. Last but not least, the audit scope should include procedures aimed at detecting potential fraud. Accordingly, the Auditor should be aware of his responsibility to consider fraud in the audit of the project financial statements as defined in ISA 240.
12. Below is a brief summary of the audit areas that require special attention:

- a) All funds disbursed under the Project are eligible, have been used, accounted for and classified in accordance with the relevant Loan/Grant agreements and all the disbursements made on behalf of the project are in accordance with the World bank disbursement guidelines;
 - b) The PFS are prepared in accordance with the International Public Sector Accounting Standards, under the cash basis of accounting and give a true and fair view of the financial operations of the project within the year. Any material deviations from those standards and the impact of such departures on the project financial statements as presented would be stated;
 - c) An assessment of the effectiveness of the internal controls over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures can be relied upon to support the related withdrawals;
 - d) Goods and services financed have been procured in accordance with World Bank Procurement Guidelines revised October 1, 2006, May 1, 2010, July 2014 and July 1, 2016 (according to each's financing terms);
 - e) All necessary copy of supporting documents, records, and accounts have been kept in respect of all projects. Clear linkages should exist between the books of account and the Project Financial Statements (PFS) presented to the Bank;
 - f) Where Designated Accounts have been used, they have been maintained in accordance with the provisions of the relevant Loan/ Grant agreements;
 - g) Project expenditures as reported by the Governing Body are reconciled with the amounts withdrawn from the Special/ Designated Account and the amounts deposited to the Special/ Designated account are reconciled with the amounts disbursed from the Loan/ Grant agreements.
 - h) Eligibility of expenditures claimed under Statement of Expenditures submitted to the World Bank for replenishment. This is in addition to substantiation of these expenditures;
 - i) An assessment of project implementation and whether financial and physical progress is consistent during the project period. The monitoring of the expenditures in relation to physical progress is validating that physical progress and disbursements are under proper financial control
 - j) Ensure that the fixed assets financed by the project are purchased in accordance with contracts and payment documents, are used for the purpose for which they were acquired and are physically existent;
 - k) Verify that checks are signed by those authorized by management and negotiated by the intended payee under a specific contract and as required under the terms of the Loan/Grant agreements;
13. The Auditor will be expected to review all correspondences with the World 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.)

Audit Deliverables

14. For all projects, the following is requested as deliverables on a yearly basis from the audit engagement:
- (i) **Yearly Audit Report for each project separately** which shall include an explicit professional opinion whether (i) the General Purpose Project Financial Statements (PFS) show true and fair

view of the Project's financial position as of 31/12/2024 and sources and uses of funds incurred during the year then ending in accordance with International Public Sector Accounting Standards, under the cash basis of accounting. (ii) all funds provided to the Project including replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures, are eligible, have been used, accounted for, and classified in accordance with the relevant Loan/ Grant Agreements as of December 31, for each year (iii) internal control over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures can be relied upon to support the related withdrawals as of December 31, for each year (iv) Replenishments and disbursements made during the year ended December 31, for each year under the Designated account has been used exclusively for payment of eligible expenditures and have been accounted for, and classified in accordance with the relevant Loan /Grant Agreement as of December 31, for each year, (v) The project was in all material respects in compliance with the financial covenants of Schedule 2 section II, part B of the Loan/Grant agreement, World Bank disbursement Guidelines and with the World Bank Procurement Guidelines revised October 1, 2006, May 1, 2010, July 2014 and July 1, 2016 (according to each's financing terms). The Auditor should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Loan/Grant agreements and express in the report any relevant exception and the impact of the exception on the PFS.

- (ii) **A Yearly Combined Management Letter for all projects** which should report any significant accounting and control issues arising from the audit of **each project**, 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 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 PMU.

The Audit Report and Management Letter to be submitted no later than 6 months (June 30) after the end of each fiscal year under audit (2024).

General Principles for Audit

- 15. 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. Training and continued education should emphasize auditing standards, work paper techniques and audit documentation to ensure engagements comply with professional standards. The same audit principles should be applied if the audit is conducted by private or government Auditors. The Auditor shall ensure that its audit firm's system of quality control provides reasonable assurance that the work performed on an audit engagement meets the applicable professional standards and regulatory requirements.

Irregularities Including Fraud

- 16. The Governing Body 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 Auditor is not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditor have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, fraud, or breach of regulations.

17. The Auditor will report in writing any serious weaknesses, fraud, irregularities or accounting breakdowns that they come across in the normal course of their duties to the designated office holder, Governing Body, and the World Bank without delay.

Access

18. The Auditor shall have rights of access to the books, accounts, vouchers, Loan/Grant Agreements, 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.
19. In addition, the Auditors will be provided with copies of the World Bank relevant publications that the Governing Body has to recognize including: (i) Financial Monitoring Reports for the World Bank –*Financed project : Guidelines For Borrowers* (ii) the World Bank “*Procurement Guidelines*” (iii) the World Bank “*Disbursement Guidelines*”
20. In turn, on occasions the World Bank 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 World Bank representative. Failure to comply with this provision may disqualify the Auditors from dealing with the all projects funded or administered by the World Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The World Bank will have this exclusive right during performance of the audit and within two years after the completion of the audit engagement.

Miscellaneous

21. **Annual Meetings.** The Auditor will be requested to attend the meeting of the Governing Body 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 Governing Body is entitled to receive. The Auditor will discuss the audit report and management letter and any part of the business which concerns the Auditor.
22. **Termination of Appointment.** If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the World Bank, may pass a resolution to remove the Auditor before the expiry of their assignment.
23. **Restriction of Auditor's Liability.** There is no limitation of the Auditors' liability in respect of audit opinions given under this assignment. The Governing Body will not agree to any such restriction in liability.
24. **Exit Conference.** The Auditor should hold a closing or exit conference with senior officials of the auditee prior to concluding the audit. Upon completion of the fieldwork, the Auditor should present its audit result and document the exit conference for inclusion in the audit work papers.

Payments

Payments will be based on the deliverables (Yearly Audit Report for each project separately and a Yearly Combined Management Letter for all projects) provided by the audit team.

| Project Name | Payment (USD) |
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| D.1 The Greater Beirut Water Supply Project (IBRD#79670) | |
| D.2 The Water Supply Augmentation Project (IBRD#8443) | |

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| D.3 The Lake Qaraoun Pollution Prevention Project (IBRD#8637) | |
| D.4 The Roads and Employment Project (IBRD#8705-TF0A4481) | |
| D.5 The Greater Beirut Public Transport Project (IBRD#8838-TF#0A7880) | |

ⁱ The Governing Body may refer to its internally generated PFS under other terminologies like “Project Sources and Uses of Funds” which also refers to the Statement of Cash Receipts and Payments, “Withdrawal applications by category” which also refers to the Statement of Cash payments and “Financial Summary Status report” which also refers to Contract listing of all contracts.