SECTION 5. TERMS OF REFERENCE

FINANCIAL AUDIT SERVICES

TERMS OF REFERENCE

Health System Strengthening Project (MOZ 1013), Mozambique

Project Background

The Government of Mozambique has received a credit from the Islamic Development Bank (IsDB) to finance the Health System Strengthening Project (MOZ 1013), Mozambique in Nampula Province (the IsDB Project). The objective of the project is ensuring "Equal access to quality healthcare services for all Mozambicans". Specifically, the project aims at increasing access to quality healthcare services through establishment of two new district hospitals in Malema, and Lalaua, capacity building, supports the acquisition of clinical skill laboratory equipment, educational materials, and supplies to Nampula Health Science Training lnstitute, supports the acquisition of four ambulances (two per district) to enhance the referral mechanism for the targeted two districts and Prevention and Treatment Centre for Obstetric Fistula: enhancing capacity to provide surgical repair of obstetric fistula for existing cases in the region.

The Mozambican Government thus intends to use a part of the credit for the payment of consulting services to Audit the Project.

Project Disbursement Arrangements

1. The Disbursement-related aspects will be managed by dedicated finance/disbursement specialist of PCU. Disbursement will be undertaken as per IsDB disbursement guidelines and procedures. The following disbursement modalities are foreseen for the project: (i) Special Account (SA) and (ii) Direct payment to contractors. Project-specific disbursement aspects will be described in the Disbursement letter.

The following disbursement modalities are considered for the project:

- Disbursements to contractors, consultants, and audit services will be made through direct payment.

- A SA will be used to disburse funds related to subcomponent C1 – PMU support. SA will be opened by MISAU (MoH) with the Central Bank of the Recipient. The ceiling of SA is US US$200,000.00 and the maximum amount to be financed out of the SA is US$1,060,380.00. The expenditures utilized from SA will be periodically reviewed and validated by the financial auditor before replenishment of the SA.

- The disbursements to contractor would be subject to verification and certification of completed works by the third party (independent project supervision consultant). The deliverables and invoices of the project supervision consultant will be verified by the PMU. The planned disbursement schedule is shown in the table below:
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Summary of tentative Project Disbursement Plan – IsDB Financing

Financial Year	Year 1	Year 2	Year 3	Year 4	Total
IsDB Loan (millions US$)	0.85	3.60	9.25	5.8	19.50
TA Grant (RL)	0.05	0.16	0.090		0.3
% Share	0.90	3.76	9.34	5.8	100%

Context

2. The Ministry of Health / MISAU 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 Ministry of Health / MISAU 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 Ministry of Health / MISAU 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 Ministry of Health / MISAU 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 as of the date 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.

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 (ISA) issued by the IAASB under IFAC, or National Accounting Standards, 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 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.).

Audit Deliverables

8. There are two main deliverables of the 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 PMU and/or Ministry of Health / MISAU.

Payment Schedule

9. The Consultant shall perform the Services during the period commencing June 1, 2027 and continuing through December 30, 2030, or any other period as may be subsequently agreed by the parties in writing.

10. The Consultant’s team will consist of the following Key Staff, with the relevant experience:

Post	Time Input (Man-months)	Qualification	Minimum Years of Experience
Team Leader / Project Manager	2.0	Senior Auditor or Accounting Specialist	10 years
Senior Auditor	4.0	Senior Auditor or Accounting Specialist	5 years
Auditor	12.0	Senior Auditor or Accounting Specialist	3 years

11. The Payments is specified below:

    Advance Payment

    10% (Ten Percent) upon the Client's receipt of a copy of the Contract signed by the Consultant as advance payment against submission of unconditional advance payment bank guarantee;

    The payment schedule:

    1st payment: 20% (Twenty Percent) of the contract price shall be paid against submission and acceptance of fiscal year 01 Annual audit report

    2nd payment: 25% (Twenty - Five Percent) of the contract price shall be paid against submission and acceptance of fiscal year 02 Annual audit report.

    3rd payment: 25% (Twenty - Five Percent) of the contract price shall be paid against submission and acceptance of fiscal year 03 Annual audit report

    Final payment: 30% (Thirty Percent) of the contract price shall be paid against submission and acceptance of the fiscal year 4 final audit report.

    For each annual invoice, 10% of the advance payment made at the beginning of the contract will be deducted.

General Principles for Audit

12. 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.

Irregularities Including Fraud

13. The Ministry of Health / MISAU 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.

14. The Auditors 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, Ministry of Health / MISAU, and the Islamic Development Bank without delay.

Access

15. 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.

16. In addition, the auditors will be provided with copies of the Islamic Development Bank's relevant publications that the Ministry of Health / MISAU has to recognize, including the Islamic Development Bank's "*Procurement Guidelines*".

17. 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.

GENERAL

18. The financial statements, including the audit report, management letter and management response, should be received by the Bank within the period agreed in the Financing Agreement after the end of the accounting year to which the audit relates.

19. The Auditor should submit the report to the Ministry of Health / MISAU - Directorate of Planning and Cooperation rather than to any staff member of the Ministry of Health / MISAU. The Project Management Unit (PMU) should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

20. It is highly desirable that the Auditor becomes familiar with the Bank's Guidelines on Annual Financial Reporting for IsDB-Financed Activities, which summarizes the Bank's financial reporting and auditing requirements. The Auditor should be familiar with IsDB Procurement Guidelines, which can be obtained from the Ministry of Health / MISAU. The Auditor should also be familiar with the Bank's Disbursement Handbook for IsDB Clients, Disbursement Guidelines for Projects: May 2006. These documents are available on the Bank's website and could be obtained from the Team Leader (TL).

QUALIFICATION

21. The Consultant shall be an internationally reputed audit and accounting firm, independent and with extensive experience in auditing and accountability and proven experience in financial auditing, particularly in projects funded by the IsDB.

22. The team composition shall include:

- **Team Leader / Project Manager:** A senior level Auditor or Accounting Specialist holding Bachelor Degree with at least 10 years' experience in Auditing, Accounting and Financial Management.

- **Senior Auditor:** A senior Auditor or Accounting Specialist holding Bachelor Degree with at least 5 years' experience in Auditing, Accounting and Financial Management.

- **Auditor:** An Auditor or Accounting Specialist holding Bachelor Degree with at least 3 years' experience in Auditing, Accounting and Financial Management.

Miscellaneous

23. **Annual Meetings.** The Auditor will be requested to attend the meeting of the Ministry of Health / MISAU 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 Ministry of Health / MISAU is entitled to receive. The Auditor will discuss the audit report and management report and any part of the business which concerns the auditor.

24. **Termination of Appointment.** If there are serious shortcomings on the part of the Auditor, the Ministry of Health / MISAU, after consultation with the Islamic Development Bank, may pass a resolution to remove the Auditors before the expiry of their assignment.

25. **Restriction of Auditor's Liability.** There is no limitation of the auditors' liability in respect of audit opinions given under this assignment. The Ministry of Health / MISAU will not agree to any such restriction in liability.

26. The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the **Health System Strengthening Project (MOZ 1013), Mozambique.** 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.

27. The financial statements, including the audit opinion, and management letter should be received by the Ministry of Health / MISAU, no later than six months after the end of the audited fiscal year in December of each year. The Ministry of Health / MISAU should then promptly forward two copies of the audited project financial statements (including audit opinion) and management letter to the Bank.

28. Procurement arrangements. The selection of the auditor firm wiil be through LCS among national firms.