

Lebanese Republic Ministry of Finance

Fiscal Management Project (P181155)

GRANT OPERATIONS MANUAL

August 20, 2024

List of Abbreviations/Acronyms

GOL	Government of Lebanon
IBRD	International Bank For Reconstruction and Development
POM	Project Operations Manual
GOM	Grant Operations Manual
TTL	Task Team Leader
FA	Financing Agreement
PAD	Project Appraisal Document
POD	Project Development Objective
PP	Procurement Plan
PCU	Project Coordination Unit
PPSD	Project Procurement Strategy for Development
STEP	Systematic Tracking of Exchanges in Procurement
LFF	Lebanon Financing Facility
TF	Trust Fund
CERC	Contingent Emergency Response Component
GM	Grievance Mechanism
IFRs	Interim Unaudited Financial Reports

Lebanon
Fiscal Management Project (P181155)

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i. Introduction to the Grant Operations Manual

The purpose of this Grant Operations Manual (GOM) is to provide written procedures and guidelines for the implementation of all aspects of the Grant funded portion of the Fiscal Management Project (referred to herein as “The Project”) during its implementation period.

As agreed upon by the Lebanese Republic and the World Bank (International Bank For Reconstruction and Development – IBRD), the GOM is intended as a management and administrative tool for the agencies and officers responsible for implementing the Project to achieve the project’s planned impacts. The purpose of the GOM is to set out the “rules of the game” by which Project funds may be accessed and utilized by the agencies in order to implement their respective sub-components of the Project. It provides detailed guidance regarding implementation arrangements, procurement, financial management, project reporting requirements, monitoring and evaluation, and environmental and social risk management associated with the use of the Project funds. Once the loan is ready, the GOM will be consolidated into a Project Operations Manual (POM).

The GOM is intended to be a “living” document, to be updated as may be needed by joint approval of the Lebanese Republic and the World Bank over the duration of the project. All changes to this manual will require a No Objection from the World Bank’s Task Team Leader (TTL). The POM is to be used in conjunction with the **Financing Agreement (FA)** between the Government of Lebanon (GoL) and the World Bank, its annexes, and the **Project Appraisal Document (PAD)**. In case of discrepancies between the POM or the PAD and the Financing Agreement, the latter prevails.

ii. Project Overview

The overarching Project Development Objective (PDO) is to support the Lebanese Republic restore the basic functions for domestic revenue mobilization and accountable allocation and use of public resources.

The progress to meet the PDO will be measured by the following outcome indicators: (1) Increased number of tax declarations filed by large taxpayers (performance-based condition and an increase in the number of audits of large taxpayers (for income tax and VAT); (2) The annual budget is submitted to the Council of Ministers at least 3 months prior to the start of the fiscal year (FY); (3) Timely completion and publication of annual audited financial reports.

The multi-donor Lebanon Financing Facility (LFF) for Reform, Recovery and Reconstruction Trust Fund has provided a grant of US\$5.5 million towards achieving the PDO. It will be executed by the government under the proposed Project. The activities identified for grant funding under this Investment Project Financing (IPF) operation is as follows:

1. Grant Funded Activities

- a- **Component 1: Stabilizing Domestic Revenue Administration (US\$14.1 million: loan US\$ 10.6 million and grant US\$ 3.5 million)**

Subcomponent 1.1 and 1.2 – No grant funded activities

Subcomponent 1.3: Restoring Revenue Management ICT systems

Grant funding of US\$3.5 million – US\$1.5 million for tax and USD 2 million for customs, is allocated for this subcomponent to restore revenue management ICT systems by carrying out maintenance and upgrading of hardware, software, and the ICT capacity of the tax and customs ICT systems. Experts will be hired for software enhancements (including developing the e-filing and e-declarations systems, VAT module upgrade, implementation of additional IT modules at Customs such as risk management, and so on). The IT experts will also document the IT source code of the existing platforms to facilitate system maintenance, as well as to provide training to existing staff where needed to maintain the upgraded systems. Support also includes the renewal of critical software licenses to revenue platforms and the procurement of IT equipment for upgrading the Customs data center.

b- Component 2: Restoring Fiscal Controls (US\$ 12.4 million: loan US\$10.4 million; grant US\$ 2 million)

Subcomponent 2.1, 2.2 and 2.3 have no Grant funded activities

Subcomponent 2.4 Restoring Cross-cutting ICT Functionalities

Grant funding of US\$2 million will be allocated to replace urgent hardware, software and licenses that provide cross-cutting support to expenditure management. This includes support for the replacement of the main hardware (including computer servers, storage devices, routers, and switches) and software utilities, as well as the renewal of critical software licenses that provide cross-cutting support to expenditure management systems (the payroll platform, for example) and revenue platforms.

c- Component 3: Revitalizing Oversight and Accountability Institutions and Procurement Capacity Building

No grant funded activities under this component

d- Component 4: Project Management

No grant funded activities under this component

e- Component 5: Contingent Emergency Response Component - CERC (US\$ 0)

This component will support the provision of an immediate response to an Eligible Crisis or Emergency as needed. It will be considered in the case of a relevant emergency event.

III. Implementation Arrangements

1. Project Team

The MoF will be responsible for the coordination of grant activities until the loan becomes effective and the Project Coordination Unit (PCU) is staffed. MoF will assign, within one month of grant effectiveness, existing staff on a part time basis to carry out the necessary arrangements within a 'Project team' for Project coordination and other functions. The project team will be responsible for the day-to-day management, monitoring and evaluation, disbursements, fiduciary, safeguards, establishment and maintenance of a Grievance Mechanism (GM) and a citizen's engagement mechanism, for the grant funded portion of the activities under the project.

The project team will prepare and furnish to the Bank not later than November 15 of each year during the implementation of the Project, starting in 2024 (depending on the decree issuance), a proposed Annual

Work Plan and Budget for the next calendar year containing: (i) all activities to be carried out under the Project during that calendar year; and (ii) a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts.

The project team will also ensure that each Project Report is furnished to the Bank not later than forty five (45) days after the end of each calendar quarter, covering the calendar quarter.

The part time Project Team will consist of assigned staff (s) that will assume the functions of the following:

- (1) Project Coordinator
- (2) Financial Management Specialist
- (3) Procurement Specialist
- (4) Social and Environmental Specialist

The functions assigned to staff (s) need to take into consideration the segregation of duties principle to ensure integrity, transparency and accountability.

2. Project Coordinator

The responsibilities of the project coordinator include:

- Keeping the GOM up to date
- Overall management of project activities, the project team and technical consultants
- Preparation of the annual work plan and budget
- Monitoring and evaluation of project activities and results
- Preparation and submission of progress reports
- Leading the communication with the Bank and other stakeholders
- Facilitating steering committee meetings
- Ensuring timely completion and submission of Interim unaudited financial reports (IFRs) and audit reports to the Bank.

3. Financial Management Specialist

- Prepare all payments related to the project, and also make sure that all supporting documentation on financial transactions is maintained, to those payments, including: (i) Direct Payments; and (ii) Replenishment Application.
- Check the Payments paid, and relevant taxes associated with the payments.
- Prepare payments records and all relevant supporting documents.
- Record all Financial Transactions and ensure that all transactions are securely recorded.
- Ensure that all the records for all the Contracts are maintained.
- Prepare the quarterly and semi-annual project financial statements and liaise with the Project Manager and other departments to reflect forecast of onward disbursements.
- Check with the Project Manager/coordinator concerning the quarterly physical report, whether it is done according to the requirement.
- Prepare withdrawal applications and submit them for signature.
- Follow up on all financial matters with relevant concerned department of Ministry of Finance, Central Bank; etc...
- Ensure that all proper record and documentation are available.

- Maintain a fixed Asset Register.
- Attend to financial queries or other related work as and when required.
- Work with the external auditor and with the technical auditor/third-party monitoring agent as needed.
- Maintain a fully functional accounting system.
- Design an appropriate Chart of Account and Cost Center.
- Design an Internal Control Mechanism for the smooth movement of all payment system.
- Design accounting policies and procedure and reporting tools.
- Establish and maintain suitable internal control system for facilitating the procurement of Works, Goods, and Services.
- Document accounting policies and procedures and safeguarding financial documents.
- Prepare disbursement plan.
- Prepare the project budget in coordination with the project manager.
- Prepare the financial and accounting sections of the project operational manual and ensure that the FM aspects are executed as per the manual.
- Ensure that the project is executed as per the World Bank financial management procedures and as per the loan agreement. PAD, POM and disbursement letter

4. Procurement Specialist

The Procurement Officer (PO) within the PMU will be undertaking the overall responsibility of procurement oversight of the project including monitoring of the procurement plan. The PO under direct supervision of the PM will guide the project in its procurement activities to ensure compliance to World Bank procurement regulations for all contracts financed by the project.

In this context, the PO will carry out the following tasks according to agreed schedules:

- Preparation of the procurement plan
- Provide assistance to the PMU in preparing specifications, drafting TORs, evaluating proposals and awarding of contracts
- Regularly reporting to the PM and the World Bank on the progress of procurement actions that have been taken and contract management
- Contract management and supervision responsibilities when needed
- Preparation of procurement progress reports

5. Social and Environmental Specialist

The E&S specialist will ensure:

- timely preparation of the E&S quarterly progress reporting.
- the day-to-day implementation of the outcomes of the E&S studies and instruments.
- overall responsibility for coordinating the management of, and reporting on, the environmental and social aspects of the project interventions at the respective sites and shall be maintained throughout project implementation.
- MoF implementing agency reports any incident or accident to the Bank within 48 hours after becoming aware of the occurrence of the incident or accident.
- coordination with the PCU team to require contractors and supervising firms to provide monthly monitoring reports on ESHS performance in accordance with the metrics specified in the respective bidding documents and contracts to the MOF, who will in turn submit them to the Bank upon request.

iv. Monitoring and Evaluation

The project as a whole has a broad results framework which is reflected in the PAD. There are no specific results assigned just for the grant funded activities. The main monitoring and evaluation functions for the grant funded activities include the following:

- Close follow up to ensuring timeliness of the procurement process of IT equipment
- Ensuring compliance with procurement regulations and processes
- Checking the quality of equipment delivered and IT services provided, alignment with the specifications, timely installation of the hardware and software and the usage.
- Ensuring timely payment of suppliers via the direct payment method

v. Procurement and Contract Management

1. Applicable Procedures

The project will follow the following procedures: “World Bank Procurement in Investment Project Financing, Goods, Works, Non-Consulting and Consulting Services” in its latest version, and the provisions of the Borrower’s procurement plan for the project (“Procurement Plan”) provided for under Section IV of the Procurement Regulations. The project will also be carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011 and as of July 1, 2016 (“Anti-Corruption Guidelines”).

2. Procurement Team Responsibilities. (please refer to the above)

3. Procurement Plan

The Procurement Plan (PP) is an essential tool for Procurement and Contract Management. It shall include details for all activities under the Project. To adequately undertake procurement under the project, it is essential to prepare a PP that is well articulated and fully developed. The detailed PP defines the work to be carried out, provides cost estimates of the proposed activity, lays out a logical sequence of the procurement steps (i.e., preparation of documents, evaluations, etc.), and identifies the responsible body for the procedural and technical, monitoring and evaluation aspect of the process. An initial Procurement Plan for project implementation has been developed by the MoF during project preparation phase and approved by the World Bank. MoF will be responsible for implementing the PP as agreed with the WB and monitor implementation to comply with the agreed timelines. The PP will be updated as needed and cleared by the WB in accordance with paragraph 4.4 and 4.5 of the “Procurement Regulations”.

The plan must be prepared by the PO at the PMU by collecting and compiling the following information:

- the types of procurement to be carried out (i.e., goods, services, etc.)
- the methods of procurement to be utilized (RFQ, RFP, ITB IC, etc.)
- the time required for the entire process considering delivery & completion dates
- the stakeholders involved in the process
- the most economic and efficient way of procuring these items
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4. Systematic Tracking of Exchanges in Procurement.

The Systematic Tracking of Exchanges in Procurement system (STEP) is the WB's online procurement planning and tracking tool to prepare, clear, and update procurement plans and conduct procurement transactions referred to in the Procurement Regulations Section V, article 5.9, and manage contracts in all its aspects. The procurement plan for the life of the project will be progressively developed by the MoF and uploaded through STEP. It defines the market approach options, the selection methods and contractual arrangements, and determines the WB reviews (Post/Prior). Any contract not uploaded in STEP, with award notification not being uploaded prior to the signing contracts, may not be eligible for financing.

5. Main Procurement Activities.

The procurement process typically consists of identification of requirements, developing specifications, identifying suppliers/service providers, inviting bids/proposals, evaluating, awarding contracts, contract management, receipt and certification of goods/works/services, performance evaluation, and closure of contract.

The grant funds will be used to finance exclusively procurement of ICT for the MoF. The applicable procurement category is goods.

The loan funds and other resources (if applicable) will be used to advance the procurement of other activities covering goods and services.

6. Procurement of Services.

This includes individual consultants and consultancy firms. Thus, the consultancy services to be procured under the project include but not limited to, hiring of **Individual Consultants** to work on project implementation, and contracting **Consultancy firms**.

7. Project Procurement Strategy for Development

The Project Procurement Strategy for Development (PPSD) is aimed to broaden the social and employment benefits of the project while ensuring the quality of the project's execution. The developed and cleared PPCSD during project preparation phase will be updated, when needed, during implementation. Refer to Annex 5 for the current version of PPCSD.

8. Record keeping

The MoF is responsible for maintaining accurate procurement records including all actions documents related to the project. All records for procurement activities is maintained in a dedicated space with restricted access by the MoF procurement team. Records must remain available at the MoF for a period not less than five years following the closing of the project.

9. Methods of Procurement

The choice of appropriate method of procurement is related to the nature, size, and complexity, likely impact of the assignment, technical and financial considerations, and particular circumstances of the assigned job. It is necessary to define the assignment, the objectives and scope of goods, works and services before deciding the selection process.

The project will procure goods, and consulting and non-consulting services. The project will use the following procurement methods and arrangements.

- Selection methods for **Goods and Non-Consulting services**. The project will use: (i) Request for Bids (RFBs), Request for Proposals (RFPs), Request for Quotations (RFQs), and (iv) Direct selection where justified;
- Selection methods for **Consultants**. The project will use: (i) Quality-and-Cost-Based-Selection (QCBS); (ii) Selection under a Fixed Budget; (iii) Least-Cost-Selection (LCS); (iv) Selection based on Consultants' Qualifications (CQS); (v) Direct Selection; and (vi) Selection of Individual Consultants;
- Other particular method of procurement and special arrangements:
 - o **Selection of UN agencies:** a UN Agency may be single sourced by MoF, particularly when such an agency has exceptional capacity, country experience, staffing and presence in the geographical areas. Thus, the UN agency would be responsible for implementation, and UN procurement procedures would be applied. When entering a contract with a UN Agency, MoF will use a standard form of agreement between the Borrower/Recipient and the UN Agency or a case-specific template approved by the World Bank.
 - o **Use of Nongovernmental Organization (NGOs):** NGOs are not for profit organizations and may be uniquely qualified to assist in the preparation, management, and implementation of the project, essentially due to their involvement and knowledge of local issues, community needs and participatory approaches.

10. Prior Review Thresholds

Based on the procurement assessment, the project will be subject to high-risk prior review thresholds.

Type of Procurement	Prior Review Thresholds (US\$ million)
Works (including turnkey, supply & installation of plant and equipment, and PPP)	5
Goods, information technology, and non- consulting services	1.5
Consulting services: firms	0.4
Consulting services: individuals	0.2

11. Complaints Management and Dispute Resolution Systems

In order to deal with the complaints received from contractor/suppliers effectively, an effective complaint handling mechanism will be developed at all the levels. On receipt of complaints, immediate action will be initiated to redress grievances. All complaints will be dealt with at levels higher than that of the level at which the procurement process was undertaken.

If the complaint is received prior to award of the contract, the complaint shall be taken into account while considering the award of the contract. If, after contract award, a protest or complaint is received from bidders, it will be examined and if necessary, the contract award will be reconsidered.

Details of the complaint and action taken by the Project to satisfactorily resolve the complaint will be disclosed on the Ministry's website upon closure of a complaint and issuance of a complaint report.

12. Supervision Mission and Post Procurement Review

All contracts not subject to prior review are subject to post procurement review by the WB on a random basis. The frequency of the supervision mission and post procurement reviews is foreseen one or twice yearly. In post procurement review, a sample of 10 to 20 % of contracts eligible for post review will be covered.

13. Non-compliance / Mis-procurement

During its review of the selection process, if the Bank finds that the MoF has not selected or engaged the consultants or has not procured goods in accordance with the procedures set out in the FA and the PP approved by the Bank, the Bank may declare mis-procurement.

Even after the contract is awarded or after obtaining a 'no-objection' from the Bank, if the Bank concludes that its "no-objection" was given based on incomplete, inaccurate, or misleading information or that terms and conditions of the contract had been modified without Bank's approval, the WB may still declare non-compliance / mis-procurement.

It is the Bank's policy to cancel that portion of the financing allocated to the services/goods that have been mis-procured. The Bank may in addition exercise other remedies provided under the FA.

If any amounts related to the mis-procured contract have been withdrawn from the Project's proceeds, the Bank will take appropriate action with the Borrower/Recipient to recover amounts already disbursed. The Borrower/Recipient should be aware that if it arranges for the financing of the mis-procured assignment in question from sources other than from funds made available by the Bank, the consultants/goods must possess the necessary technical quality to not adversely affect the Bank's project. Selection of consultants or procurement of goods must in no way interfere with the satisfactory implementation of the project with regard to cost, quality, and timing.

14. Contract Management

➤ *Contract Manager*

The PO will assume the role of Contract Manager for all Contracts signed under Project.

The Contract Manager monitors the implementation of the Contracts by:

- Monitoring Consultants Contracts' deadlines for mobilizing the Consultants, achieving implementation milestones, and submitting reports and other contractual deliverables
- Monitoring Suppliers Contracts' deadlines in delivering goods
- Preparing addenda for the Contracts and signature by parties, whenever necessary.
- Making the Contract parties aware of any events which may affect the Contract performance;
- Dealing with contractual disagreements and assisting parties with dispute resolution;
- Following-up on deliverable acceptance procedures;
- Checking that invoices are correct and in accordance with the Contract conditions;
- Issuing a Payment request including a list of all accepted deliverables and or goods eligible for payment for a given invoice, backed up with a copy of corresponding acceptance reports and documents.

➤ *Contracts Addenda*

Once a Contract is signed between MoF and the Supplier/Consultant, any needed variation or addenda is subject to the following approval process:

- Upon receipt of all necessary approvals from the contracting authority, the PO issues the addenda and gets it signed by both parties and enters the decision into the procurement plan.

- In case the contract is subject to the Bank's Prior Review, before granting a substantial extension of the stipulated time for performance of a contract, agreeing to any substantial modification of the scope of the services, substituting key staff, waiving the conditions of a contract, the MoF will seek the Bank's "no-objection" to the proposed extension, modification, substitution, waiver, or change. A copy of all amendments to the contract will also be submitted to the Bank.

➤ ***Acceptance of Services and Goods and Payments Procedures***

The Payment Process shall be initiated by the PO being the Contract Manager.

a. Payments to Suppliers

Payments to Suppliers for the provision of goods shall be made in accordance with the Payment Schedule included in the Contract signed between the Supplier and the MoF.

A payment request shall be initiated by the Contract Manager for each due payment. The Contract Manager shall make sure that the following are attached to the payment request:

- A copy of the acceptance report duly signed by the acceptance committee.
- The original invoice submitted by the supplier.

b. Payments to Consulting Firms / Individual Consultants

Payments to the consultants shall be made in accordance with the Payment Schedule included in the Contract signed between the Consultants and MoF.

In case of lump-sum contract, payments shall be made against deliverable(s). A payment request shall be initiated by the Contract Manager for each due payment.

The PO who assumes the role of Contract Manager shall make sure that the following are attached to the payment request:

- A copy of the deliverable(s) subject of payments.
- A signed acceptance report prepared and signed by an acceptance committee appointed by the MoF. The acceptance report should be approved by the MoF.
- Proof of stay in Lebanon, in case the Consultant has got international Consultant travelling for the assignment and the payment includes a per-diem part
- The used ticket*, if any
- The original invoice
- Any other supporting documents deemed necessary for the acceptance.

In case the Contract is a time-based Contract, the Contract Manager shall make sure that the followings are attached to the payment request:

- Time attendance sheets duly signed by the Consultant and the Coordinator appointed in the Contract.
- A brief summary about the activities performed during the month.
- Proof of stay in Lebanon, in case the payment includes a per-diem part.
- The used ticket*, if any.
- The original invoice
- Any other supporting documents deemed necessary for the acceptance.

Once completed, the payment request shall be processed by the PO.

Note The cost of tickets shall be reimbursed based on actual cost, subject to ceiling limits if specified in the contract. At the end of each contract an amendment shall be issued to reflect the actual cost of tickets reimbursed to the Consultant. A copy of the amendment shall be sent to the Bank for information.*

VI. Financial Management and Disbursement Arrangements

Project Implementation

The Ministry of Finance (MoF) will be the Implementing Agency (IA) of the project and will have the overall responsibility for project implementation.

MoF will appoint a project team to handle project implementation. The project team will include key staff needed for project implementation: project manager, procurement officer, financial officer, M&E officer. The project team will need to be assigned within 1 month after effectiveness date of the grant.

The Financial Officer will handle the day-to-day activities related to financial management of the project. The financial officer terms of reference are added as annex 1.

Project Planning and Budgeting

In the planning process, The IA will undertake and is responsible for the following tasks:

- (5) Before the beginning of each fiscal year for the project, the financial officer will prepare the Annual Budget for the next year reflecting any updates to the project cost tables detailed in the Project Appraisal Document including additional funds leveraged for the Project. The Annual Budget should be prepared and presented by quarters and the data on the number of possible activities to be implemented in the coming year and the estimates of the total funds needed to finance them should be presented by component and sub-component and based on the project's cost tables. After preparing the draft Annual Budget, the financial officer will send it to the project manager/director for review before sending the final budget to the World Bank.
- (6) Every quarter, the financial officer should review the costs incurred during the quarter. In case of differences between the planned and actual costs presented in the Annual Budget, the financial officer should identify the reasons for those differences and detail them in the quarterly Interim Unaudited Financial Reports (IFRs) presented to the World Bank. In case of internal problems identified during the costs review, the financial officer should take the necessary steps to eliminate them; otherwise, the budget for the next quarters should be readjusted to reflect the difference between actual and planned figures.
- (7) The Financial officer will prepare the IFRs every quarter and submit to the Bank within 45 days at the end of each quarter. These reports should include: (i) a statement of funding sources and uses for the period covered and a cumulative figure; (ii) a statement of use of funds by component and by expenditure category; (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and (v) a comprehensive list of all fixed assets.
- (8) The Financial officer is also responsible for planning the disbursements of the project including the inflow and outflow of funds. The disbursements are planned on a quarterly basis, based on historical data available at the Project Level. Historical data can be considered the average level of monthly disbursements as well as the disbursements on contracts already committed. The project's disbursements can also be planned in accordance with the Project Appraisal Document prepared by the World Bank as well as the financial officer's estimations. The disbursements for operating costs are planned based on the budget allocated to these costs.
- (9) The Financial officer is also responsible for recording the contract commitments under the Project. In fact, after the contract between the IA and the consultant/supplier has been signed, the

appropriate recording should be made by the financial officer to reflect the timetable of the disbursements for that specific contract. This information should be used during the preparation of the Project's funds disbursement plan for the next quarter.

- (10) The Financial officer is also responsible for maintaining the Project's Accounting System and preparing the project's Financial Reports which include the Monthly Reports and the Interim Unaudited Financial Reports discussed in detail in the next sections. The Financial officer is also responsible for developing the audit arrangements for the financial reports, which will be detailed in the next section.

Accounting and Charts of Accounts

For the effective use of the financial data, it is essential to be able to classify it appropriately. A chart of accounts is one of the ways for classifying the accounting data of the PEIL in a manner that will promote its use, lead to better management, and achieve more meaningful accountability. The Chart of Accounts should in principle follow the classifications of the original and updated costing tables and should allow for categorizing expenditures based on Category (Component), Subcategories (Subcomponents), Activities and Sub-activities and finally line items within each Activity or Sub-activity.

It is the responsibility of the project's financial officer and the relevant task team to ensure that the Chart of Accounts of the Accounting Software used by the Project has the necessary chart fields to capture the expenditures incurred as per the above.

The grant will use the International Public Sector Accounting Standards (IPSAS) cash basis of accounting in recording the daily transactions and producing the financial reports. The project will use a ring-fenced system based on excel spreadsheet manual recording. Financial data will be recorded and safeguarded by the financial officer with the supervision of the project manager.

Maintenance of Records

Financial records must be created and preserved for every financial transaction performed under the project. Financial records are defined as any financial information including written, computer data, internal forms, e-mails, or any other form of storage information originated by the implementing agency such as internal forms, journal vouchers, financial reports (Monthly & quarterly), copies of checks and withdrawal applications etc. or received by the IA such as supplier invoices and receipts, bank statements, World Bank documents etc. within the framework of the project's official activities. The objective of this procedure is to preserve the financial records and files for further official use, for financial audit and for review by the World Bank during the supervisory missions. The project financial records are the property of the IA and cannot be removed or destroyed.

- **Filing of the financial records:** The Financial officer is responsible for filing the financial records created or received by IA. To fulfill this responsibility, the financial officer must maintain chronological files in which the financial documents have to be filed for future reference. Filing should be performed daily to prevent the accumulation of papers and to ensure that the financial records are always maintained in an up-to-date manner. Each financial record should be filed under its code in chronological order, with a sequential number assigned for every document. Any kind of additions or amendments to the financial document should be filed in chronological order immediately following the principal document.

For the appropriate filing of the financial records, all financial documents must be classified in accordance with the subject classification system. Under the project, the financial records will be

classified, first, Reference to the Project, second, under the appropriate type third, under the appropriate year and fourth, under the appropriate quarter or month. This sequential numbering is mandatory for all financial records.

- **Storage of financial records:** The financial records of the project should be stored at the IA office. The data should be stored within the accounting software, as paper copies, as scanned copies and as computer disc copies. The financial officer should allocate an appropriate storage area for the financial records and maintain them in locked cabinets to which access is controlled and limited. In addition, all-important correspondences should be filed.
- **Archiving of financial records:** In order to prevent an unnecessary pile-up of files in a limited office space, the financial officer should archive the financial records. Once a year, the financial officer should archive the completed or inactive files in a manner that will allow for easy retrieval of the files in case they were required at some future date.
- **Back-up procedures:** To avoid the loss or damage of financial data, the information should be kept in three copies: 1- At the computer server, 2- In the locked cabinets of the IA office, 3- On OneDrive. Only the IA Representative and the Financial officer are allowed to access the financial records without authorization. The access of external persons is prohibited except for the auditors and World Bank staff.

Flow of Funds

Funds will be disbursed under the grant using the direct payment method exclusively, whereas the payment will be made directly from the World Bank to third party beneficiaries (contractors, suppliers, consultants) based on instructions by the IA through the submission of Withdrawal Applications (WAs) in the system client connection. Each direct payment will be substantiated by relevant supporting documents (copies of records including contracts, invoices, and receipts).

The financial officer will be responsible for preparing the WA online for direct payment, uploading the supporting documents and submitting to the authorized signatures for electronic signature.

Authorized Signatories

Two authorized signatories will be nominated by IA for the project to sign the withdrawal applications: the Director General Georges Maarrawi and the Head of Financial Markets Department Bassima Antonios. Their corresponding specimen signatures will be submitted to the World Bank prior to the submission of the first withdrawal application. Each withdrawal application will be approved and signed by the authorized signatories.

All Disbursement arrangements and instructions are detailed in the Disbursements and Financial Information Letter (DFIL). The Disbursement Guidelines for Investment Project Financing dated February 2017, (“Disbursement Guidelines”) are available in the Bank’s public website at <https://www.worldbank.org> and its secure website “Client Connection” at <https://clientconnection.worldbank.org>.

Expenditures Categories in USD

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Gooseds, non-consulting services, and consulting services, Operating Costs, Training under Part 1.3(a) and Part 2.4(a) of the Project	5,500,000	100%
TOTAL AMOUNT	5,500,000	

Electronic Delivery: Section 10.01 (c) of the General Conditions. The Borrower will deliver Withdrawal Applications (with supporting documents) electronically through the Bank's web-based portal "Client Connection" at <https://clientconnection.worldbank.org>. This option will be implemented after the officials designated in writing by the Borrower who are authorized to sign and deliver Withdrawal Applications have registered as users of "Client Connection". The designated officials will deliver Applications electronically by completing the Form 2380, which is accessible through "Client Connection". By signing the Authorized Signatory Letter, the Borrower confirms that it is authorizing such persons to accept Secure Identification Credentials (SIDC) and to deliver the Applications and supporting documents to the Bank by electronic means. The Borrower may exercise the option of preparing and delivering Withdrawal Applications in paper form on exceptional cases (including those where the Borrower encounters legal limitations), and which were previously agreed with the Bank. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Borrower confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation, available in the WB's public website at <https://worldbank.org> and "Client Connection"; and (b) to cause such official to abide by those terms and conditions.

Disbursement Deadline

The Bank will honor eligible expenditures completed, services rendered and goods delivered by the project's Closing Date specified in the loan Agreement. The Bank grants the borrower a four (4) months grace period after the closing date to expedite the payments of expenditures incurred before the grant closing date. The WB will notify the borrower of any changes to this date.

Internal Controls

The Internal Control System is a process usually developed by management to achieve the three main objectives of an entity, which are:

- 1- The reliability of financial reports.
- 2- The efficiency and effectiveness of operations.
- 3- Compliance with applicable laws and regulations.

Under the project, MoF will maintain an adequate Internal Control system for the preparation and approval of transactions and the segregation of duties. The objective of the Internal Control system is to achieve accountability at all levels by developing policies & procedures that can be used and relied upon for the financial management functions. The basis for the Internal Control System should be the segregation of duties among the task team members. Duties should be segregated among the different members to reduce the risk of error or inappropriate action. Responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) should be divided.

- (1) Authorization of transactions: The Project manager is the person responsible for the authorization of transactions. However, final approval and payment is granted to the authorized signatories. Approval of a transaction means that the Project manager has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures. The Project manager should review supporting documentation, question unusual items, and make sure that necessary information is present to justify the transaction.
- (2) Recording Transactions: The Financial Officer is the person responsible for the preparation, recording and reconciling of transactions. Before recording the transaction, the Financial Officer should reconcile all the supporting documents to identify and investigate differences and take corrective actions to resolve the differences if any. After ensuring that all supporting documents are complete and accurate, the Financial Officer should record the transaction in the accounting system.
- (3) Custody of Assets: The IA is responsible for the custody of assets. An Inventory list should be maintained for all asset acquired under the project. Every fiscal year, the Financial Officer should conduct a physical count of all the items in the inventory. The counts should be compared to balances per the perpetual records. Missing items should be investigated, resolved, and analyzed for possible control deficiencies; perpetual records should be adjusted to physical counts if missing items are not located.

The Processing of Transactions:

Whenever a transaction takes place under the Project it should be recorded and processed on the accounting system (i.e., Excel spread sheets) that meets the project's specific accounting requirements. Individual records of transactions are treated as source documents. For accounting purposes, source documents are considered:

- a) Purchase orders/ Contracts
- b) Purchase invoices
- c) Delivery note
- d) Service invoices
- e) Receipts
- f) Consultants Reports
- g) Consultants invoice

All transactions occurred should be registered in the accounting software in accordance with the date of occurrence and under the form of journals. The journal should contain sufficient and detailed information about the date of the transaction, its type, amount and reference to the source document. All the

transactions should be entered on the accounting system using the IPSAS Cash basis of accounting.

The Expenditures Cycle

For eligible expenditures under the grant, which includes carrying out maintenance and upgrading of hardware, software, and the ICT capacity of the tax and customs ICT systems in addition to supporting critical maintenance and upgrading of hardware, software, and the ICT capacity of the budget and expenditure management systems, the expenditure cycle will be as follows:

For Goods and Maintenance Services:

- A Committee comprising the project manager, procurement officer and financial officer initiate the process of selecting the goods and/or maintenance services.
- The procurement officer implements the procurement process in accordance with the procedures outlined in Chapter xx of the POM until contract signature.
- The project manager together with designated staff from MoF approves the selection of goods and/or maintenance services.
- Goods are received by the MoF by the project task team and then transferred to the relevant department. Maintenance services delivered to the relevant department under the supervision of the project team.
- Delivery note, invoice/receipts submitted by the suppliers/contractors and cleared by the project manager and financial officer.
- Withdrawal application for Direct Payment is prepared by the financial officer after uploading all relevant documents in the system. The direct payment is then reviewed by the project manager.
- Direct payment is submitted online for electronic signature. The authorized signatories sign the application.
- Payment is executed to the beneficiaries (contractors, supplier, consultant). Beneficiaries to provide the financial officer with their detailed bank information.
- Financial officer retains all supporting documents in their original forms and copies of the direct payment.

For Consultancy Services:

- A Committee comprising the project manager, procurement officer and financial officer initiate the process of selecting a consultant firm/individual.
- The procurement officer implements the procurement process in accordance with the procedures outlined in the POM, until contract signature.
- The project manager together with the relevant staff approves the selection of the consultant firm/individual.
- Consultant firm/individual starts work and submits invoice/deliverables.
- Services are received and reviewed by the project manager and relevant departments.
- Consultant firm/individual starts work and submits invoice/deliverables.
- Invoices/deliverables cleared by the project manager and financial officer and/or procurement officer.

- Withdrawal application for Direct Payment is prepared by the financial officer after uploading all relevant documents in the system. The direct payment is then reviewed by the project manager.
- Direct payment is submitted online for electronic signature. The authorized signatories sign the application.
- Payment is executed to the beneficiaries (contractors, supplier, consultant). Beneficiaries to provide the financial officer with their detailed bank information.
- Financial officer retains all supporting documents in their original forms and copies of the direct payment.

Financial Reporting

The project team at MoF will be responsible for preparing periodic reports and maintaining the project bookkeeping and will produce quarterly Unaudited Interim Financial Reports (IFRs) and annual Project Financial Statements (PFS). The task team will produce the IFRs every quarter and submit them to the World Bank within 45 days at the end of each quarter. The PFS will be prepared on a semi-annual basis and will include the same information as the IFRs. The IFRs will include the following information:

- Statement of Cash Receipts and Payments by category and component.
- Accounting policies and explanatory notes including a footnote disclosure on schedules: (i) “the list of all signed Contracts per category” showing contract amounts committed, paid, and unpaid under each contract, (ii) budget analysis between actual and planned; and (ii) a comprehensive list of all fixed assets.
- Template of the IFR is added as annex 3.

External Auditing

The Financial Officer will produce annual Project Financial Statements (PFS), which are subject to audit that will be conducted on annual basis and will cover all aspects of the project, uses of funds and committed expenditures. The external audit will also cover the financial operations, internal control and FM system. The audit will include: (i) the auditor’s opinion on the project’s annual financial statements; and (ii) a management letter on the project internal controls. The audit report and management letter will be submitted to the World Bank within six months from the end of each fiscal year.

Scope of the Audit

The audit should be carried out in accordance with International Standards on Auditing (ISA) and will include such tests and controls that the auditor considers necessary in the circumstances. The auditor should indicate any material differences from international accounting standards, where relevant, and their effect on the annual financial statements.

In conducting their review, the auditors should pay special attention to the following:

- All external funds have been used in accordance with conditions of the relevant financing agreements, with due attention to economy and efficiency and only for the purposes for which the financing was provided.
- Goods, works, and services financed have been procured in accordance with the relevant financing agreements and procurement guidelines;
- All necessary supporting documents, records and accounts have been kept in respect of all project expenditures. Clear linkages should exist between the books of account and reports presented to the World Bank or other donor institutions;
- The financial statements have been prepared in accordance with consistently applied International Accounting Standards and give a true and fair view of the financial situation of the project and of resources and expenditures at the end of the fiscal year to which the audit relates.
- All fixed assets are accounted for in terms of location, status and condition. A comprehensive list of all fixed assets must be incorporated in the audited financial reports. All fixed assets must be registered in the accounting system.

Audits of the financial statements of the project should include:

- An assessment of the adequacy of the accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of the project-financed assets;
- A determination as to whether IA has maintained adequate documentation of all relevant transactions;
- Verification that the expenditures submitted to the World Bank, including those submitted in IFRs, are eligible for the appropriate financing, and identification of any ineligible expenditures; and
- Verification that the annual Project financial statements (PFS) can be reconciled with the relevant year to date amounts appearing in the IFRs for the fourth quarter of the year.

The Audit Report should include:

- A separate opinion on the project financial statements, that the PFS presents fairly the financial position of the project at the end of the fiscal year. All payments made under the project are eligible and substantiated with all relevant supporting documents.
- A separate opinion about the accuracy and reliability of internal control procedures submitted during the fiscal year to support related payments.

A management letter shall accompany the audit report, containing the external auditor's assessment of the internal controls, accounting system and compliance with financial covenants in the financing agreement including recommendations for improvement.

The external auditor is expected to be engaged within six (6) months of project effectiveness. The audit report, PFSs and Management Letter will be submitted to the World Bank no later than six (6) months following the end of the fiscal year.

The external audit TORs are included in annex 2.

vii. Environmental and Social Safeguards

As a borrower for a WB funded project, the GoL through the Ministry of Finance is committed to adhering to the WB Environmental and Social Framework (ESF) that became effective in 2018 ([WB's ESF](#)). Relevant standards to this project include Assessment and Management of Environmental Social Risks and Impacts (ESS 1), Labor and Working Conditions (ESS 2), Resource Efficiency and Pollution Prevention Management (ESS 3), Community Health and Safety (ESS 4), and Stakeholder Engagement and Information Disclosure (ESS 10).

The borrower has prepared, cleared and disclosed the following instruments:

- Environmental and Social Commitment Plan (ESCP) (see Annex 3); and
- Stakeholder Engagement Plan (SEP) (see Annex 4)

Additional instruments prepared, cleared and have been disclosed as per the timelines in the ESCP include: 1) the Labor Management Procedures (LMP), 2) OHS Manual; 3) Waste Management Plan.

The ESCP and subsequent safeguards documents may be revised from time to time during Project implementation, to reflect adaptive management of the Project, unforeseen circumstances, and/or in response to assessment of Project performance based on safeguards screenings. In such circumstances, the PCU shall agree to the changes with the World Bank and update the ESCP and relevant safeguards documents to reflect such changes. Any agreement on changes to the ESCP shall be documented through the exchange of letters signed between the World Bank and the Recipients. The PCU shall promptly disclose the updated ESCP.

Environmental Risks

The environmental risk rating for this project is rated “Moderate. The project does not involve infrastructure or major civil works. The activities are mainly associated with minor civil works associated with the installation and upgrading of the IT hardware and technology under components 1 and 2 of the project which may be associated with OHS risks and the generation of small volume of e-waste by replacing old IT hardware and small volume of construction waste from limited upgrading of the IT facilities and infrastructure which can be readily mitigated through good practices and following the World Bank EHS guidelines.

Social Risks

The social risk for this project is “Moderate”. The project activities are mainly associated with positive social impacts as the project aims to restore the public financial management functions at MoF in a more efficient and transparent method through technical assistance; maintain timely payments through an efficient payment function; support to strengthen the procurement capacity of the Court of Accounts (CoA), Central Inspection (CI), public procurement institutions. and the National Anti-Corruption Commission; implement workforce planning for critical functions; regularize audit reports and conduct payroll audits to enhance credibility of the payroll. However, the project activities may also be associated with some adverse social risks such as: the potential risk of miscommunication or insufficient

communication of the project specificities; Risk of a weak functioning grievance mechanism which has not been adequately and widely disseminated to reach all stakeholders; internal social tensions at MoF potential engagement with MoF staff not involved in the project leading to potential delays and tensions; the current circumstance of work in the public administration and the work conditions in the CMU (lighting, ventilation, aeration, drinking water, lavatories, evacuation of dust and smoke, and hygiene measures); forced labor and child labor associated with the suppliers of solar panels (primary supply workers); low ESF capacity of the implementing agency. These risks can be effectively mitigated by ensuring continuous and ongoing consultations and focus groups discussions in a transparent manner with all identified stakeholders including relevant NGOs, CSOs and the Public Administration Employee's Union in line with the SEP prepared, cleared and disclosed for the project. In addition, the grievance mechanism for the project needs to be established and operational before commencement of project activities. The GM should be effectively communicated with all stakeholders as identified in the SEP. Moreover, an internal and robust project grievance mechanism needs to be established prior to commencement of project activities that needs to be communicated effectively to all identified project workers. Installation of solar panels is not a core function of the project however the MoF will ensure that the requirements of ESS2 are adhered to as they are related to potential forced and/or child labor.

Stakeholder Engagement Plan

The SEP has identified the key stakeholders who should be consulted in an ongoing and continuous manner as per the plan outlined in the SEP and are divided into the three main categories of stakeholders as per ESS10 including project affected persons, other interested parties and vulnerable groups. The E&S specialist will ensure continuous engagement with the identified stakeholders as outlined in the SEP, and will document those in the quarterly progress report as per the ESCP.

Grievance Mechanism

A variety of channels are already available but may not be operational for the time being, they are listed below. The SEP will be updated to include all contact details as soon as they are available as per the requirements of the ESCP; all contact details to be developed and established during the project preparation and included in an updated SEP which will be cleared by the Bank and redisclosed before commencement of project activities.

- By email on infocenter@finance.gov.lb; Claudinek@finance.gov.lb, , Bassimaa@finance.gov.lb. Raniash@finance.gov.lb.
- Through the following link <http://www.finance.gov.lb/en-us/Pages/ContactUs.aspx>
- By submitting an official letter through MOF registrar

The existence of the GM will be consistently publicized during all stakeholder engagement activities (meetings, focus group discussions, etc.) and also on the MoF website. In addition, the day and time of operation of the GM needs to be clearly mentioned in the SEP and communicated to all stakeholders.

Reporting Requirements

The MoF will hire an E&S specialist as per the ESCP to ensure successful implementation of the ESSs and the bank task team will provide the needed support, relevant trainings and capacity building sessions proportionate to the risks associated with this project. The E&S specialist will ensure timely preparation of the E&S quarterly progress reporting. The E&S specialist will be responsible for the day-to-day implementation of the outcomes of the E&S studies and instruments. The E&S Specialist will assume overall responsibility for coordinating the management of, and reporting on, the environmental and social

aspects of the project interventions at the respective sites and shall be maintained throughout project implementation.

Moreover, the E&S specialist will ensure that the MoF implementing agency reports any incident or accident to the Bank within 48 hours after becoming aware of the occurrence of the incident or accident. The E&S specialist will also coordinate with the PCU team to require contractors and supervising firms to provide monthly monitoring reports on ESHS performance in accordance with the metrics specified in the respective bidding documents and contracts to the MOF, who will in turn submit them to the Bank upon request.

List of Annexes:

Annex 1: Financial Officer Terms of Reference

Annex 2: Template of IFR

Annex 3: Environment and Social Commitment Plan (ESCP)

Annex 4: Stakeholder Engagement Plan (SEP)

Annex 5: Project Procurement Strategy for Development (PPSD)

Annex 1: Financial Officer Terms of Reference

Financial Officer:

Scope of work

The responsibilities of the financial officer are to carry out all financial management activities of the project in accordance with applicable laws and regulations, and the World Bank Guidelines for Financial Management. The Financial officer will:

- Prepare all payments related to the project, and also make sure that all supporting documentation on financial transactions is maintained, to those payments, including: (i) Direct Payments; and (ii) Replenishment Application.
- Check the Payments paid, and relevant taxes associated with the payments.
- Prepare payments records and all relevant supporting documents.
- Record all Financial Transactions and ensure that all transactions are securely recorded.
- Ensure that all the records for all the Contracts are maintained.
- Prepare the quarterly and semi-annual project financial statements and liaise with the Project Manager and other departments to reflect forecast of onward disbursements.
- Check with the Project Manager/coordinator concerning the quarterly physical report, whether it is done according to the requirement.
- Prepare withdrawal applications and submit them for signature.
- Follow up on all financial matters with relevant concerned department of Ministry of Finance, Central Bank; etc...
- Ensure that all proper record and documentation are available.
- Maintain a fixed Asset Register.
- Attend to financial queries or other related work as and when required.
- Work with the external auditor and with the technical auditor/third-party monitoring agent as needed.
- Maintain a fully functional accounting system.
- Design an appropriate Chart of Account and Cost Center.
- Design an Internal Control Mechanism for the smooth movement of all payment system.
- Design accounting policies and procedure and reporting tools.
- Establish and maintain suitable internal control system for facilitating the procurement of Works, Goods, and Services.
- Document accounting policies and procedures and safeguarding financial documents.
- Prepare disbursement plan.
- Prepare the project budget in coordination with the project manager.
- Prepare the financial and accounting sections of the project operational manual and ensure that the FM aspects are executed as per the manual.
- Ensure that the project is executed as per the World Bank financial management procedures and as per the loan agreement. PAD, POM and disbursement letter.

Qualifications and Experience

The Financial officer should have a minimum of bachelor's degree in business, accounting, economics or any relevant field, master's degree or professional accountancy qualification (CPA, CMA etc...) would be a distinct advantage in addition to a minimum of 5 years of professional experience working on similar assignments. The FO shall have direct previous experience with financial management of projects financed by international donors. The FO should be proficient in Arabic and English, French would be an advantage.

Annex 2: External Audit Terms of Reference

Audit of World Bank- Supported Projects for the Year Ended December 31, 2025.

Context

1. According to Article IV section 4.01 of the Loan agreements and according to Schedule 2 section II, part B of the 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).
2. The General Purpose Project Financial Statements (“PFS”) ¹are comprised of a (i) Statement of Cash Receipts and Payments by category 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 and (v) accounting policies and explanatory notes including a footnote disclosure on the list of all signed Contracts per category showing Contract amounts committed, paid, and unpaid under each contract.
3. 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

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.

4. For this purpose, the Auditor shall carry out whatever necessary examinations of the statements and underlying records and internal control systems.

Scope

5. 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.
6. 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.
7. 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 updated in July 2016, November 2020 and September 2023;
 - 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) 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
 - g) 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;
 - h) Verify that all payments including transfers 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;
8. 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

9. 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) present fairly, in all material respects, the cash receipts and payments of the Project for the year ending December 31 2025 and showing cumulative balances as at December 31, 2025 in accordance with the International Public Sector Accounting Standards(IPSAS), 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, 2025 (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, 2025 (iv) Replenishments and disbursements made during the year ended December 31 2025 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 Agreement as of

December 31, 2025, (v) The project was in all material respects in compliance with the financial covenants of Article IV, section 4.01 of the Loan agreement or Schedule 2 section II, part B of the Grant agreement, World Bank disbursement Guidelines and with the World Bank Procurement Guidelines updated in May 2004 and October 2006.

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.

General Principles for Audit

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

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.

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

10. 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.
11. 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*”
12. 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

13. **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.
14. **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.
15. **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.
16. **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.
17. The contract is annual and could be renewed upon satisfactory work result.

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 list of all signed Contracts.

Annex 3: Template of IFR (to be added here)

Followed by the remaining annexes