



Trust | Convene | Impact

Hailemariam & Roman Foundation
Crown Prince Palace, Gullele Sub-City, Woreda 2, Entoto Street,
Addis Ababa, Ethiopia

**TERMS OF REFERENCE FOR A FINANCIAL AUDIT,
AML/CFT/SANCTIONS DUE DILIGENCE, INTERNAL CONTROL
SYSTEM, PROCUREMENT, TECHNICAL**

PROJECT ID CET1120

Agreement number(s):	
Entity audited:	Hailemariam & Roman Foundation
Country:	Federal Democratic Republic of Ethiopia
Contracting authority:	Hailemariam & Roman Foundation
Provisional signing date for the audit contract:	TBC
Period covered:	4 August 2023 to July 7, 2025

Contents

Contents	2
1 Context, objectives and scope of the audit	5
1.1 Context	5
1.1.1 Presentation of AFD	5
1.1.2 Presentation of Project	5
1.1.3 Context of the audit	5
1.2 Objectives of the audit	5
1.3 Scope (or extent) of the audit	6
1.3.1 Contractual conditions	6
1.3.2 Period(s) covered	7
1.3.3 Financial data and volume	7
1.3.4 Limitation to the scope of the work	7
2 Methodology and reference framework of the audit	8
2.1 Conduct of the audit	8
2.1.1 Stages of the audit	8
2.1.2 Timetable of the audit	9
2.1.3 Logistics for the mission	10
2.1.4 Volume of services	11
2.1.5 Structure and content of the report	11
2.2 Methodology of the audit	12
2.2.1 Determination of the sample	12
2.2.2 Eligibility conditions	13
2.2.3 Determination of the opinion	14
2.2.4 Documentation of anomalies and weaknesses identified	14

2.3	Audit due diligence	15
2.3.1	Audit of AML/CFT/Sanctions due diligence	15
2.3.2	Audit of the internal control system	16
2.3.3	Control of financial statements and use of the funds allocated	17
2.3.4	Audit of direct payments by AFD	19
2.3.5	Procurement audit	19
2.3.6	Technical and E&S audit	23
2.3.7	Follow-up of recommendations from previous audits	24
3	Professional obligations	25
3.1	Standards and ethics	25
3.1.1	Professional standards to be applied	25
3.1.2	Ethics and independence	25
3.2	Requirements concerning the auditor	26
3.2.1	Professional affiliation of the auditor	26
3.2.2	Qualifications and experience of the auditor and mission team	26
3.2.3	Team profiles	27
3.2.4	Resumé	28
3.2.5	Composition of the audit team	28
4	Annexes	29
4.1	Nomenclature of findings and anomalies	29
4.2	List of expenditures and findings (model)	29
4.3	AFD-M0134 Model Audit Report 2025	29
4.4	Model Letter of Representation	29
4.5	List of contracts awarded	29
4.6	AFD Explanatory Note on the CSO Screening Mechanism	29
4.7	AFD Explanatory Note on per diems	29

1 Context, objectives and scope of the audit

1.1 Context

1.1.1 Presentation of AFD

Together with its partners (governments, companies, local authorities and NGOs), AFD builds shared solutions with and for people. AFD's teams are involved in more than 2,700 projects to promote common goods in 120 countries, in territories in crisis, and in Overseas Territories. The projects deal with climate change (projects aiming to be 100% in line with the Paris Agreement), gender equality, biodiversity, peace (*via* the Minka Peace and Resilience Fund), education, and health. This is how AFD Group contributes to the commitment of France and the French to the Sustainable Development Goals (SDGs), for a World in Common.

1.1.2 Presentation of Project

- **A. Background and Context**

The **Preservation of Maze National Park and its Watershed Project (CET1120)** is implemented in the South Ethiopia Region (formerly SNNPR), specifically in Gamo and Gofa Zones, covering five woredas (Kucha, Kucha Alpha, Daramallo, Kamba, and Zala) and 17 kebeles. The project area surrounds Maze National Park, a key biodiversity and watershed resource under increasing ecological pressure.

The project responds to:

- Ecosystem degradation and biodiversity loss
- Unsustainable use of natural resources
- Declining water flow in the Maze River catchment
- High dependence of local communities on park biodiversity and watersheds

The project is financed by Agence Française de Développement (AFD) and implemented by Hailemariam & Roman Foundation (HRF) under its Climate-Smart Conservation and Ecotourism (CSCET) program.

The intervention adopts a **Landscape approach**, linking biodiversity conservation, sustainable water governance, and alternative community livelihoods.

- **B. Description and State of Progress**

Signing Date and Amount

- Financing Agreement signed: August 2023
- Total grant: €5,000,000
- Duration: 2023–2028 (contractual framework)
- Operational implementation period: 2024–2028
- First implementation year: July 2024 – June 2025

Target Population

- Approx. 67,500 inhabitants (10,333 households)

Project Components

1. Establishing a functional park that achieves its conservation objectives.
2. Promoting inclusive natural resource governance and alternative livelihoods.
3. Ensuring sustainable water flow in the park's rivers.
4. Project management, monitoring, and environmental & social (E&S) compliance.

Financing Plan

The €5M AFD grant finances infrastructure, technical assistance, capacity building, equipment provision, set-up governance mechanisms, and support project management. HRF manages funds in accordance with AFD requirements and the Project Implementation Manual (PIM).

- **C. Operating Method**

Main Stakeholders

- Implementing Agency: HRF (through the PMU based in Maze National Park HQ, Morka Town)
- Government Partners (Regional, Zonal and Woreda Structures):
 - Regional Bureau of Culture and Tourism
 - Maze National Park
 - Regional Bureau of Agriculture
 - Regional Bureau of Water
 - Regional Forest and Environment Protection Authority
 - Gamo and Gofa Zone Chief Administrations
- Oversight Authority: Agency for Civil Society Organizations (ACSO)
- Community Structures: Community Task Forces, Natural Resource Governance Committee Park Ambassadors, Fire Brigades, Livelihood Multipurpose Cooperatives, Irrigation Water Users Associations.

Monitoring, Management and Control Mechanisms

- Results chain: Goal → Outcomes → Intermediate Outcomes → Outputs → Activities
- Planning and reporting through MS Office based (Peachtree Accounting System)
- Quarterly internal HQ reviews
- Bi-annual Local Governance Steering Committee meetings
- Bi-annual Project Steering Committee meetings
- Annual AFD supervision missions
- Internal audit oversight by HRF
- External annual financial audit

Applicable Procedures

The project operates under:

- AFD 2019 Procurement Guidelines
- AFD “No Objection/Pre-Approval” procedures for major procurements
- Jointly Developed Project Implementation Manual (PIM)
- HRF financial and administrative policies
- Ethiopian tax and CSO regulations
- Environmental and Social Management Framework (ESMF) and Process Framework (PF)

D. Fiduciary Circuit

Bank Accounts

- HRF maintains:
 - One project dedicated Euro account
 - Two project dedicated Birr accounts (One in Main Branch office (Zemen) and One in Field office (CBE) at Wacha town, Daramallo Woreda)
 - New birr-accounts to be opened for the sub granting for Universities on fire and vulnerability mapping, hydrological and biodiversity assessments.

1.1.3 Context of the audit

The following are the Terms of Reference (ToR) on which HRF wishes to engage the services of an audit firm for auditing the CET1120 project (see Appendix 1 for the detailed project presentation). As per the Financial Agreement signed between AFD and HRF article 4.4 (see below extraction)

4.4 Control – audit

Pursuant to Clause 3.2.3(f) (Control-Audit) of the General Conditions the audits of the Project Account will be carried out by an independent and reputable audit firm selected by the Beneficiary as the case may be, subject to the AFD's no-objection to the terms of reference of the audit mission and the selected audit firm.

The costs of the audits will be charged to the Grant funds.

Therefore, a full audit (financial, internal control system, procurement and technical) will be carried out to assess the compliance of the activities financed by the AFD Grant every year until the Deadline for Use of Funds as defined in the Financial Agreement. In addition to this, an audit of the internal control system in place will be carried out as soon as possible to ensure the procedures in place, at HRF level, at the project office in Morka Town, and new birr-accounts to be opened for the sub granting for universities are in line with AFD requirements. This should be accompanied by an institutional audit to provide reasonable assurance to AFD that HRF has acceptable internal systems and the internal rules are compliant with AFD's rules and review of expenditure from project start.

An independent and reputable audit firm selected by the HRF will carry out the audits of the Project Accounts. In addition to the internal systems check, and the financial audit the auditor is expected to check in detail the eligibility of expenses before each advance payment, starting EFY2017.

HRF is expected to undertake huge procurements and manage a number of interventions. The total grant amount is expected to be disbursed during the project period.

These ToR will be an integral part of the contract concluded between the Contracting Authority and the auditor.

1.2 Objectives of the audit

The objective of this audit is to allow the auditor to express a professional opinion (see section 2.2.3) on the following aspects:

- **The financial statements** of the Project present fairly, in all material respects, the actual expenditure incurred and the actual revenues collected during the period covered by the audit.
- **The funds allocated** to the Project are, in all material respects, used in accordance with the terms of the financing agreement(s) and the expenditures comply with the rules of sound financial management.
- **The Entity complies with** the AML/CFT/Economic and Financial Sanctions and Integrity due diligence (*i.e.*, reputational due diligence) set out in the financing agreement (**“AML/CFT/Sanctions due diligence”**) in connection with the Project.
- **The internal control system** of the Entity to manage risks regarding the achievement of the Project objectives has been designed in an appropriate manner and has functioned effectively during the period covered by the audit.

The objective of the audit is also to allow the auditor to assess whether:

- **The contracts** have been awarded in accordance with the rules in force and in compliance with the principles of economy, effectiveness, openness, transparency and equity, **including compliance with AML/CFT/Sanctions and E&S due diligence.**
- The contracts have been performed in accordance with the **technical** specifications and the standards provided for the project.

- The **justificatio** for the use of the **previous advances** has been reached, making it possible to lift the condition precedent to the renewal of the advance.

The auditor shall also make recommendations, where necessary, following their findings on the various aspects of the audit.

1.3 Scope (or extent) of the audit

1.3.1 Contractual conditions

- Financing agreement between AFD and HRF dated 04 August 2023
- Project Implementation Manual (PIM) approved by AFD on December, 2023
- HRF's project CET-1120 field allowance use guideline, financial management manual, procurement manual, and HR policy
- Rules applicable to contracts in the context of the projects
- Version I of the Project Procurement Plan (PPP), dated on November, 2023

1.3.2 Period(s) covered

The auditor will be recruited for multiannual audit to provide reasonable assurance to AFD that HRF's internal systems are sufficient, conduct financial audit and review the expenditure of CET1120 project. The following missions and duration will be necessary:

- First audit mission in **June/July 2026** to undertake the initial/institutional audit. This audit will provide assurance to AFD that HRF has the required systems and resources to implement CET1120 project and undertake the financial audit covering the period from August 2023 to 7 July 2025 and justify expenses occurred in the same period.
- Second audit mission in **Sep 2026** to cover period 7th of July 2025 – 6th of July 2026 (EFY2018)
- Third audit mission in **Sep 2027** to cover the period 7th of July 2026 – 6th of July 2027 (EFY2019)
- Fourth and final audit mission in **Sep 2028** to cover the period 7th of July 2027 – August 2028 (EFY2020)

Important dates for the CET1120 projects are the following:

- Technical Completion Date: 5 years after the signing of the Agreement
- The Deadline for Drawdown applicable to the Grant is 6 months before the technical completion date.
- The deadline for use of funds referred to under Clause 3.4 (Deadline for Use of Funds) of the Financial Agreement is six months after the Technical Completion date.

1.3.3 Financial data and volume

The financial data and volume of expenditure for the period covered by the audit, and estimated at the time of drafting these ToR, are as follows:

- The first audit will analyse all the internal procedures to ensure that it is compliant with AFD rules as set up in the Agreements. It will provide AFD with recommendation regarding the Project Implementation Manual.

The provisional forecast of expenditure are presented in the below table. More detailed budget is annexed.

	Year 1 & 2 Aug 23 to Jul 25	Year 3 July 25 to June 26	Year 4 July 26 to June 27	Year 5 July 27 to Aug 28
Forecast	1,000,000	2,000,000	1,500,000	500,000

Since project start advance payment of 1 M€ has been disbursed, and 354,401.69 (Aug 2023 to Jul 2025) € has been spend as of August 2023 of which 153 number of transactions has occurred.

The bank accounts to be considered in this audit are:

- The HRF project account: designated EUR and ETB Bank accounts (2 bank accounts in total at the Federal level).
- Field project implementation office at Wacha Town (One CBE account,):
- Review of the sub-granting agreements/Memorandum of Understanding (MoU) and provide recommendations if there are sections, which needs to be improved.
- Review the grant flow from the HQ until the end beneficiaries and confirm the funds are being used for the intended purposes and as per the financial agreement.

The anticipated expenses of the project are;

- Procurement of consultancy services and different studies (e.g. environmental and social impact assessments for 50 km internal access road and new office construction).
- Procurement of office equipment, consumable items, operational and administrative equipment's, stationery materials and others for the PMU, Park office and the Foundation.
- Procurement of different goods for the establishments of livelihood groups, Irrigation water User Associations, Multi-purpose cooperatives and the Park office Procurement for the renovation and maintenance of Maze Park office, initial phase office rent for the PMU and facilities construction (50 km internal access road design and construction; supervision payment for 50 km internal access road construction and design for new office building, and compensation fee for acquired land for new office building).
- Capacity building and training costs for the establishment of fire brigades, Natural governance Committees, Local Governance Steering Committee, Park ambassadors, livelihood groups, multipurpose cooperatives, irrigation water user associations, and all the concerned stakeholders
- Staff Salaries and Benefits (e.g., annual communication subscription, job advertisement for positions, and publication fees for expression of interests).
- Monthly, Quarterly, Bi-annual and Annual monitoring and supervision mission costs Transport costs (transporting procured items to project sites, loading and unloading of goods vehicle rental and maintenance, Fuel for motor bikes and vehicles, flight and ground transports for the above-mentioned monitoring and supervision missions.
- Workshop Expenses (Accommodation, refreshment, Per dime, travels, different printing materials etc), for the above listed beneficiaries and others in relation to project activities.

Financial Management Systems

- Delegation of authorities, procurement thresholds, call for bids and proposals, evaluation of bids and proposals and approval/signature of contracts and purchase orders;
- Management and control over the variation of service orders and in ensuring value for money and quality; and
- Asset and warehouse management including the procedures for receipt, storage, and disposal.

Partnership, Resource Mobilization and Grant Management

- The adequacy of the sub-grant management manual and procedures and its proper implementation including conducting due diligence, following-up and monitoring of the sub-grantees, ensuring environmental and social impact assessment of the program is conducted.

1.3.4 Limitation to the scope of the work

The auditor shall immediately inform the Contracting Authority of any limitations to the scope of their work before or during the audit. They shall inform it of any attempt to limit the scope of the audit, or of any lack of cooperation, so that a decision can be made on the action required, the possibility of continuing the audit, or the changes required to the scope of the audit or its timetable.

In the event of problems, in particular concerning security or health issues, the auditor and Contracting Authority shall agree on the steps to be taken and adapt the scope of the work accordingly.

2 Methodology and reference framework of the audit

2.1 Conduct of the audit

2.1.1 Stages of the audit

- Preparation of the mission

The auditor shall contact the Entity at the earliest opportunity (and within 5 business days at the latest) following the official notification of the audit to prepare the mission and agree on its implementation schedule, in particular for the field work. They shall ascertain, through an initial request for documentation, the availability and location of:

- o The final financial statements, as well as the original supporting documents or photocopies certified by the Entity
- o The documentation on the contracts

- Preparatory meeting with the Contracting Authority

The purpose of this meeting is to address the following issues: planning the audit and field work, logistics and security (premises, vehicles, equipment, etc.), availability of the contact persons and making the first appointments and, where appropriate, appointment of a focal point, timetable for the preparation of the audit report, and clarification of any outstanding issues (the availability of the documents in particular).

- Opening meeting with the Entity

This meeting covers the same issues as the preparatory meeting, but is with the Entity.

The auditor shall inform the Contracting Authority about this meeting, which its representatives may also attend.

- Audit mission

The auditor conducts the due diligence indicated in point 2.3 of the ToR. Their working method shall be as participatory as possible to ensure that they obtain a maximum number of responses and supporting documents during the mission and prior to the production of the draft report.

- Aide-mémoire and closing meeting

At the end of the mission, the auditor shall draft an aide-mémoire and is required to organize a closing meeting with the Entity. The Contracting Authority’s representatives may attend. The objective of this meeting is to review the aide-mémoire and obtain the Entity’s observations on the auditor’s findings and recommendations. Where necessary, the Entity shall be requested to provide additional documents and/or information which will be included in the draft report.

- Submission of the draft report

The draft report shall be prepared within 15 business days following the closing meeting. The draft report shall be sent simultaneously to the Contracting Authority, which will provide their comments.

DR sent to AFD and then to the Entity
The Draft Report (DR) is sent to HRF and AFD for comments
The auditor incorporates HRF’s and AFD’s comments and then revises his/her recommendations/ findings, where appropriate
The auditor integrates the Entity’s and AFD’s comments and prepares the final report

- Comments on the draft report

The Contracting Authority, shall have 10 business days to send their comments and any additional supporting documents to the auditor.

Once this time limit has expired, if the comments and supporting documents have not been sent, the auditor shall inform the Contracting Authority to agree on a solution. The Contracting Authority shall confirm in writing to the auditor any additional time limit requested.

- Final report

The auditor shall include the comments of the Contracting Authority, and AFD’s in the final report, as well as their final position on the findings, giving reasons for why the additional elements sent have or have not been taken into account.

The auditor shall send the final report to the Contracting Authority, and AFD within 5 business days after receipt of the comments, observations, and any additional supporting documents.

2.1.2 Timetable of the audit

- a) Annual audits

The provisional date for the start of the mission is 23 August 2026. It is required to start within 5 business days following the official notification.

The period between the closing meeting of the audit and the submission of the final audit report to the Contracting Authority shall not exceed 40 business days.

The maximum duration of the annual audit mission is 10-13 business days per mission

Example of a detailed timetable to be completed by the auditor for a mission with a maximum duration of three months:

	M1				M2	
	W1	W2	W3	W4	W1	W2
Preparation of the mission	<input checked="" type="checkbox"/>					
Preparatory meeting with the Contracting Authority	<input checked="" type="checkbox"/>					
Opening meeting with the Entity, where appropriate		<input checked="" type="checkbox"/>				
Field work		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Aide-mémoire and closing meeting				<input checked="" type="checkbox"/>		
Submission of the draft report					<input checked="" type="checkbox"/>	
Observations on the draft report					<input checked="" type="checkbox"/>	
Submission of the final report						<input checked="" type="checkbox"/>

b) Verification of the use of the funds for the renewal of advances

Upon receipt of all the supporting documents required for the renewal of the advance, the Contracting Authority requests the auditor to conduct a verification mission. To enable the renewal of the advances, the mission shall begin within 20 business days following the official notification, and the report shall be submitted within 20 business days after the start of the mission.

2.1.3 Logistics for the mission

HRF will not provide any logistical support.

2.1.4 Volume of services

The average annual volume of the services in person/days for the entire audit team is estimated at **40** days.¹

The tendering firm shall provide details of the volumes of services for each category of expert.

2.1.5 Structure and content of the report

Use of AFD's model audit report²

The use of the model audit report, provided to the auditor, is mandatory. It shall be drafted in English. The findings and anomalies shall be presented in the audit report using the nomenclature indicated in Annex 4.1 and the financial findings shall be summarized using the following typology: eligible expenditures, eligible with anomalies, ineligible, not audited. Annex 4.2 shall be completed and attached to the auditor's report in Excel format. The auditor shall ensure that this annex is consistent with the audit findings set out in the main body of the audit report.

The auditor shall submit the draft and final reports in electronic format, Word, and Excel for the annexes, as well as two original versions of the final report, on the auditor's letter-headed paper, accompanied by a

¹ The number of days of expertise is given on an indicative basis and shall not be the basis for the payment in the case of fixed-price contracts.

² See Annex 4.3.

cover note. In this note, they shall confirm that two dated and signed original paper versions of the final report have been sent to the Entity.

“Draft” or “final” must be clearly marked on each version. The final report shall be signed by the associate who is responsible for the audit and its completion.

Specific case of verifications of supporting documents prior to the renewal of advances, the auditor is not required to provide a report with an opinion, if the annual audit report is subsequently prepared. However, the auditor shall report on their work, referring to the following sections of the model audit report (see Annex 4.3 of the ToR):

- Section 3.1: summary table of the financial findings, the only change being to replace “Draft report” and “Final report” with “Outcome of the verification”
- Section 4.1: financial findings, indicated one by one
- Annex 4.2 of the ToR: Excel file presenting the auditor’s verifications, which shall be adapted by removing the columns for the observations received and the final findings.

2.2 Methodology of the audit

2.2.1 Determination of the sample

The auditor may apply sampling depending on their assessment of the risks. The determination of the sample may be revised for each fiscal year audited

- a) Financial audit of the use of the funds allocated

To ensure the representative nature of the outcome of the controls, the auditor shall audit a minimum of 65% (by amount) of the total expenditures indicated in the financial report. In the event that the ineligible expenditures exceed 10% of the total amount of the expenditures audited, their control rate shall be increased to 85%. For each budget item, 50% shall be audited and a minimum of 10% for each sub-item.

Expenditures incurred using funds transferred to the Project’s Final Beneficiaries and beneficiaries of reallocations shall be included in the scope of the audits.

In the specific cases mentioned in section 2.3.1, spot checks of compliance with the contractual undertaking regarding compliance with economic and financial sanctions shall also be included in the above-mentioned minimum sample of 65%.

The auditor may, should they deem it necessary and in accordance with their professional judgment, select operations outside the defined sample of 65%. In this case, it should be specified that the auditor will be required to conduct all the due diligence related to these expenditures (in accordance with the due diligence set out in section 2.3.3).

Finally, and if in the initially defined sample there are no operations related to cash transfers, per diems and/or economic resources with a monetizable value, the auditor shall systematically use an additional sample including this type of operation, in accordance with section 2.3.1.

Specific case of a sample audited for the verification of supporting documents for the renewal of advances

The sample of audited expenditures must enable a verification of the attainment of the rate of justification for the use of the previous advance provided for in the financing agreement (100 %).

b) Audit of the internal control system

Compliance tests must be conducted on the various processes for the financial and administrative management of the Project, assessed in the context of the audit of the internal control system.

The auditor shall define the scope of the compliance tests depending on the risks identified when the mission was prepared, then during the assessment of the internal control system (see section 2.3.2).

c) Procurement audit 100% of contracts are audited

d) E&S technical audit

The determination of the sample must take the following factors into account: complexity of the work, geographical spread, technical incidents during the implementation, the fact that there is no private contracting authority, delays, service order on the suspension of works, amendments (legitimacy), ill-conceived Detailed Design, shortcomings in the technical specifications and execution plan for the works, non-compliance with E&S commitments, occurrence of major E&S events (accidents resulting in serious pollution, fatal accidents, major strikes or demonstrations, complaints...).

2.2.2 Eligibility conditions

The auditor shall conduct eligibility tests and controls of the expenditures ensuring:

- Their compliance with:
 - the financial agreement
 - The project documents
 - Initial Project Procurement plan
 - The project implementation plan of HRF's project CET-1120 field allowance use guideline, financial management manual, procurement manual, and HR policy
 - The annual work plan which AFD give a no objection
 - The technical standards and good practice for the performance of contracts, where appropriate
- The existence of:
 - Supporting documents by type of expenditure in compliance with sound management practices in the absence of specifications in the procedure's manual,
 - The documentation for the award of contracts and their technical implementation, where appropriate
- The conclusiveness of the supporting documents (original supporting documents, chronology of dates respected, legal notices respected, documents stamped and signed)
- The Entity's compliance with the AML/CFT/Sanctions due diligence required by the financing agreement
- The reality and quality of outputs in the field
- That the Project has endeavored to obtain the most satisfactory value for money
- That the expenditures/contracts have been incurred/performed by the Entity during the Project implementation period defined in the financing agreement
- That the expenditures are properly recorded in the Entity's accounts
- That the expenditures do not comprise ineligible costs (for example, certain taxes or VAT)

2.2.3 Determination of the opinion

The various possible audit opinions for the financial audit, and the audit of the internal control system are **an unqualified opinion, a qualified opinion, an adverse opinion and a disclaimer of opinion**.

N.B.: The opinions shall take into account the outcome of the due diligence on compliance with economic and financial sanctions indicated in sections 2.3.1 and 2.3.3.

When expressing an opinion on the financial statements of the current year, auditors are now required to take into account the potential effect of a modified opinion (qualified, adverse and disclaimer of opinion) of a previous year that did not give rise to an appropriate correction or solution (ISA 710 Standard). This avoids an accumulation of unresolved findings.

2.2.4 Documentation of anomalies and weaknesses identified

The list of expenditures and financial findings must be itemized using the nomenclature in Annex 4.1, in an Excel file, the model of which is attached in Annex 4.2. All the expenditures for the period covered must be listed in this file, and the anomalies observed in the audited expenditures must be commented on.

The auditor shall provide the documentation concerning the audit findings at the request of the Contracting Authority during a period of five years following the approval of the final report.

2.3 Audit due diligence

2.3.1 Audit of AML/CFT/Sanctions due diligence

The auditor shall conduct the following specific due diligence:

- A review of the establishment and proper functioning of the means of control to ensure compliance with the agreements regarding the fight against money laundering and terrorist financing, in particular compliance with regulations regarding economic and financial sanctions
- In this respect, a review of the existence of operational monitoring-evaluation and control structures
- Compliance tests to ensure compliance with the contractual undertakings regarding AML/CFT/Sanctions.³ These compliance tests consist in:

For all counterparties financed by AFD:

- A verification of the existence and implementation of AML/CFT/Sanctions mechanisms, policies and procedures in the context of the Project
- A verification that the counterparty complies with contractual undertakings regarding international sanctions on a sample of expenditures (sample left to the discretion of the auditor and limited to 20% if there are a large number of beneficiaries of cash transfers), for which the auditor shall justify the relevance with regard to the Project components and which shall comprise a significant proportion of cash transfers (per diems may be included) /economic resources with a monetizable value if this component exists in the Project

³ On an indicative basis only. It should be noted that compliance with regulations regarding targeted financial sanctions adopted by the United Nations, the European Union and France can be verified by consulting the following link: <https://gels-avoirs.dgtresor.gouv.fr/List>. Regarding compliance with economic sanctions, and where appropriate, the compliance test may, for example, consist in the establishment of a sample of the goods used in the context of the Project implementation and a verification of whether these goods have been acquired in breach of the relevant sanctions regulations by obtaining an invoice of the goods acquired, the certificate of origin, etc.

2.3.2 Audit of the internal control system

The auditor shall adapt the scope of their review of the design and functioning of the internal control system depending on their prior knowledge of the Entity.

- Document review

The auditor shall in particular review:

- The financing agreement(s), agreements and memorandums of understanding with the partners, contracts, technical and financial implementation reports, activity programs and budgets, the procedures manual, and any other existing documents
- The organization established for administrative, technical and financial management, as well as its reliability and appropriateness with regard to procedures and both human and material resources
- Review of the internal control system

The auditor shall verify the reliability and appropriateness of the internal control system, as well as the reality and effectiveness of its functioning, in particular with regard to:

The organization put in place:

- Definition of tasks and assignment of responsibilities, in particular with regard to commitments, authorizations, the certification of services performed, and payments
- Segregation of incompatible or conflictual tasks

The procedures established:

- Existence of specific and documented procedures for the justification of expenditures
- Opening of separate cash accounts for funds depending on their origin, as well as the establishment of procedures to control cash accounts
- Compliance with applicable procedures for the selection of suppliers and recruitment of service providers and consultants (consultation documents, evaluation documents on bids or candidates and record of the selection)

Archiving and the obligation of accountability and, in this respect:

- The organization, filing and securing of documents, including financial and contract documents
- The regular and timely production of financial statements and technical and financial implementation reports, etc.

Specific controls, including a review of the establishment and proper functioning of the means for detecting cases of duplicate financing for the same expenditure by several donors.

- Risk assessment

The previous stage enables the auditor to assess the risks separately for each source of information based on **seven criteria: completeness, reality, evaluation, allocation, rights, obligations and information.**

The auditor shall assess the main risks related to the achievement of the Project's objectives, in particular the risk of the funds allocated to the Project not being used in accordance with the applicable contractual conditions, as well as the risk of error, irregularity and fraud in the Project financing.

The auditor shall also assess whether the design of the internal control system sufficiently mitigates these risks and whether the system functions effectively.

2.3.3 Control of financial statements and use of the funds allocated

a) Verification of financial statements

The auditor shall conduct the due diligence required to verify that the resources received and used by the Project are effectively shown in complete, sincere and properly established financial statements. In this respect, they shall:

- Ensure that the Project financial statements have been established in accordance with the specifications set out in the financing agreement and in the Project procedures manual (for example, accrual or cash-based accounting)
- Ensure that the financial statements present fairly, in all material respects, the actual expenditures incurred and the actual revenues received by the Project during the period audited, in accordance with the applicable contractual conditions
- Ensure that the financial statements are consistent with the other accounting documents, including the balance and account books in general
- Ensure that the financial statements are consistent with the technical and financial implementation reports sent to AFD, and any other financial or regulatory report established in the context of the Project
- Review regularizations conducted during the closing process for the financial statements
- Reconcile the financial statements with the cash position and/or the bank accounts, including through direct confirmation with the banks holding the accounts
- Verify, where appropriate, the accuracy of the exchange rates used for the currency conversions, as well as their compliance with the terms of the financing agreement
- Verify, where appropriate, the procedures used to control the funds sent to other entities participating in the implementation of activities

The auditor may decide to request written statements, included in a letter of representation (a model letter of representation, taken from the ISA 580 Standard, is given in Annex 4.4, the auditor shall verify that the ISA 580 Standard has not modified this model) signed by the member(s) of Senior Management who is/are the main manager(s) of the Entity (ISA 580 Standard). The objective of this process is to obtain evidence that the Senior Management discharges its responsibilities with regard to the management of the Project and its reporting.

b) Verification of the use of funds

The objective of this due diligence is to ensure that:

- The funds allocated to the Project by AFD have, in all material respects during the period audited, been used in accordance with the applicable contractual conditions
- The statement of assets gives a fair and exhaustive presentation of the assets (number, description and value of the assets) acquired for the Project during the period audited, in accordance with the contractual conditions and the information set out in the financial report

The auditor's work covers:

- The control of compliance with accounting principles and specific rules

- A verification of the conformity of the expenditures with the activities agreed to in the financing agreement, the activity program and the procedures manual, and their consistency with the technical and financial implementation reports
- A verification that the expenditures have been incurred during the implementation period for the Project audited
- A verification that the expenditures have been authorized in accordance with the Project management rules, and that they are substantiated by true and fair supporting documents
- Sample checks of the physical reality of the goods acquired by the Project
- Sample checks of compliance with the contractual undertaking with regard to compliance with economic and financial sanctions in the specific cases provided for in section 2.3.1. In the event of non-compliance with this undertaking by the Entity, the auditor is required, at the stage of the draft report, to consider the expenditure relating to the operation reviewed as ineligible. However, if the Entity is then able to fulfil these undertakings, the corresponding expenditures shall be reclassified as eligible expenditures with anomalies in the final audit report
- A verification of the regularization by the Project, over the period audited, of the expenditures previously invalidated for an earlier period

When an expenditure is connected to a contract, the audit shall be limited to the requirements set out in paragraph 2.3.2. The financial audit shall not include the verification of the compliance of the expenditure with the procurement requirements (this verification is only conducted when a procurement audit is also planned).

c) Verification of the use of funds prior to the renewal of advances

In the case of a renewal of advances, the auditor implements the due diligence set out in the previous paragraph “Verification of the use of funds” (annual audit).

In addition, the auditor shall certify that the rate of justification for the advance provided for in the financing agreement has been reached in order to enable its renewal.

d) Analytical and budget control procedures

The auditor shall conduct an analytical control of the expenditures to verify whether:

- The budget presented in the technical and financial implementation reports corresponds to the budget in the financing agreement and/or has been approved by the Project governance bodies and/or has been subject to AFD’s “No Objection”
- The expenditures declared in the technical and financial implementation reports were planned in the components and sub-components of the budget
- Any amendments to the budget have been approved by the Project governance bodies and/or have been subject to AFD’s “No Objection” and/or have been formalized by an amendment to the financing agreement
- The Project implementation rate is consistent with the implementation schedule for the activities. The auditor shall review any discrepancies and obtain explanations concerning any over-consumption or under-consumption of the budget

2.3.4 Audit of direct payments by AFD

In addition to the due diligence set out in 2.3.2.b above, for direct payments, the auditor shall verify:

- The effectiveness of the outputs and services, as well as their compliance with the terms of the contract awarded
- For fixed-price technical assistance contracts, the consistency between the costs actually incurred by the service provider and those budgeted and included in the contract

2.3.5 Procurement audit

Procurement covers the process for the award of contracts following a bid invitation (with or without pre-selection), a request for quotations, or a direct consultation (direct contracting).

The auditor shall verify the compliance of the entire process and all the procurement documents. The compliance of the process and the procurement documents shall be assessed in relation to the undertakings given in the Financing Agreement (**referring to the Procurement Guidelines, with certain possible adjustments to these undertakings**).

Where appropriate, and more specifically, they shall review the following aspects:

- Review of the procurement framework (actors, regulations and procedures)
- The functioning of the bodies and the qualifications of the actors responsible for procurement. In particular, the existence of a mechanism to ensure compliance with local regulations and AFD's additional requirements in terms of procurement and quality control (dedicated team, document review system, etc.)
- The organization between the procurement unit and the ordering department to ensure the quality of the identification and the expression of technical requirements
- The mechanisms to prevent and detect prohibited practices
- Compliance with the timelines for approval and validation provided for in the laws and regulations applicable to the Entity audited
- The compliance and reliability of the filing and archiving system for the documentation
 - Compliance with procurement planning
- Compliance of contracts with the Procurement Plan and budgets (subject matter of contracts, allotment, implementation schedule and budget allocations)
- Consultation/competitive bidding (the entire consultation process), and for each contract
- The choice of the type of consultation and the selection method, in particular with regard to the aspects set out in the Procurement Plan
- The content of the procurement documents and their consistency with the need and the type of contract, as well as their completeness with regard to the requirements of the Financing Agreement (and the Procurement Guidelines, where appropriate). The review shall specifically focus on the evaluation criteria, the award procedures, the contract terms, including the remuneration arrangements, etc.
- The advertising procedures (the media used, appropriate distribution, etc.), the submission deadlines applied, as well as the organization of the submission and opening of bids with regard to the requirements set out in the procurement documents
- For direct contracting:
 - Compliance of the justifications provided with applicable regulations and the Financing Agreement, with authorizations obtained from the competent bodies

- Whether the procurement process has been respected (letter of invitation to tender, technical specifications, contract terms, etc.) in accordance with the Financing Agreement (and the Procurement Guidelines, where appropriate)

- Evaluation

- The consistency between the records of the opening of bids, the evaluation reports, the records of the awards, the award notifications and the contracts awarded
- The establishment of an Evaluation Committee in accordance with the Financing Agreement (and the Procurement Guidelines, where appropriate)
- The implementation of an evaluation and award process in accordance with the criteria defined in the procurement documents. This assessment shall cover both the administrative aspects and the technical and financial aspects. The justification and grounds for the rejection of applications, bids, proposals and quotations shall also be reviewed
- The objectivity and transparency of the technical and financial evaluation (with regard to the criteria defined in advance, the consistency between the comments made and the scoring, the consistency between the evaluations/scores and the applications, bids, proposals and quotations actually received, according to the compliant and qualified best and lowest bidder rule, as specified in the procurement documents and consistent with the quality of the bids)
- Whether reasonable economic conditions have been obtained, in particular by comparing unit prices with those of similar contracts
- Detection of cases (proven or suspected) of distortion or breach of competition (collusion/cartel, undue advantage, etc.)

- Award and contract procedures

- Contract award during the bid validity period
- Regularity of the contractual clauses of the basic contract, whether it corresponds to the draft contract used for the consultation
- The consistency between the technical specifications of the procurement documents and those attached to the contracts signed
- The acceptability of any amendments to the specific conditions of the contract (timetable, place of arbitration, taxes, duties, etc.) made with the successful bidder, or the acceptability of any possible negotiations. It will in particular be necessary to ensure that there were no major amendments that call into question the initial ranking of the bids or proposals
- The existence of conclusive guarantees
- The presence of the signed Covenant of Integrity

- Performance of contracts (where appropriate)

- The legality of amendments and modifications during the contract period, in terms of both price and technical opportunity, and compliance with the limit set out in the applicable regulations, and ensuring that they are endorsed by administrative orders issued by authorized persons (project manager, control missions, etc.)

- Contracts subject to AFD's "No Objection"

For contracts subject to AFD's "No Objection", as set out in the Procurement Plan for which AFD issued a "No Objection", the auditor is requested to verify whether the "No Objections" provided for have been

requested and issued. If this is not the case, the same audit due diligence shall be applied to these contracts as for contracts not subject to AFD's "No Objection".

- AML/CFT/Sanctions due diligence
- The auditor shall verify that the Contracting Authority conducted the due diligence on the fight against money laundering and terrorist financing (AML/CFT/Sanctions) at the very beginning of the procurement process (*i.e.*, at the opening of bids for competitive bids and when the shortlist was established for restricted competitive bidding). In this respect, the auditor shall in particular ensure that the Contracting Authority has verified that the successful bidders are not on the lists of financial sanctions adopted by the United Nations, the European Union and France. Indeed, if a successful bidder is on one of these lists, the corresponding contract expenditures will be ineligible
- If the Contracting Authority has carried out the verifications, the auditor shall ensure the effectiveness and relevance of the consideration given to not only the outcome of the due diligence conducted by the Contracting Authority, but also the resulting consequences
- If this verification has not been made, in the draft report, the auditor shall declare as ineligible the expenditures for the contracts that have not been subject to these verifications
- However, upon receipt of the draft report, if the Entity is able to verify that the successful bidders were not on the lists of financial sanctions, the corresponding expenditures shall be reclassified as eligible expenditures in the final audit report, subject to due consideration of the due diligence conducted and its consequences
- If, however, the Entity is unable to demonstrate that it conducted verifications *a posteriori*, the expenditures shall be considered as ineligible
- ESHS clauses in bidding documents for works
- The inclusion in the bidding documents of the E&S documents available (E&S Impact Assessment, E&S Management Plan, Resettlement Action Plan...), and in particular with regard to:
 - The ESHS measures resulting from the E&S Management Plan concerning the project design (measures included in the technical specifications and works plans) and the management of sites (ESHS specifications for works)
 - ESHS qualification criteria, an ESHS price schedule and sanctions clauses in the event of non-compliance with the ESHS measures
 - A signed ESHS Statement of Commitment for National Bid Invitations and Requests for Quotations
- Security due diligence in the bidding documents (in the case of orange or red zones)
- For the security due diligence, a signed ESHS Statement of Commitment for National Bid Invitations and Requests for Quotations at the very minimum
- Case of refinancing of contracts

In the case of refinancing (contracts for which the contracting process has already been engaged or signed by the Contracting Authority, without the prior involvement of AFD), the auditor shall also verify the previous due diligence with regard to the procedures applicable to the beneficiary and international good practices:

- The existence of duly signed Covenants of Integrity and Statements for Contracts to be Refinanced (Appendix I and II of the Guidelines)

- The absence of claims, appeals, complaints and/or litigation concerning the procurement process and, in the event of claims, appeals, complaints and/or litigation, verify whether the Contracting Authority has addressed them in a satisfactory manner

The auditor shall collect the documents certifying that this due diligence has been conducted (existence and handling of complaints) and a paragraph providing information about it shall be included in the audit report.

N.B.: The case of refinancing also covers the case of framework agreements that existed prior to the signing of the Financing Agreement. Indeed, for expenditures incurred on purchase orders or subsequent contracts signed on the basis of pre-existing framework agreements to be considered eligible, the auditor will need to verify all the aforementioned due diligence.

2.3.6 Technical and E&S audit

The auditor shall verify the following aspects:

- The appropriateness of the technical specifications and requirements set out in the bidding documents, in particular with regard to the nature of the services/works
- The compliance of the technical requirements set out in the bidding documents, the technical bid, the contract (and its amendments) and the timetable for the works
- The existence and quality of the documentation on the technical monitoring of the operations (site logs, visit reports, etc.)
- The effectiveness of the services/works and supplies or equipment (reality, quality, and compliance with the contractual conditions)
- The compliance of the attachments, statements/invoices and all technical documents (including site logs) with the technical progress of the works
- The reasonableness of the prices, in particular in the event of modifications to the substance of the services/works and supplies or equipment (through a service order and/or amendment)
- Compliance with the implementation program (timeframe, compliance of services, logical sequencing of the work, etc.)
- The implementation of ESHS measures and compliance with the ESHS commitments, in particular under the E&S Commitment Plan (ESCP) and ESHS documents (E&S Impact Assessment, and E&S Management Plan.
- The technical justification of the amendments and service orders
- The identification of delays in the performance of works and a verification of the application of any penalties
- Compliance with the contractual obligations of each party, thus preventing risks of litigation or dispute
- An assessment of the overall quality of the organization of works/services and supplies or equipment, in particular concerning the control and supervision of their implementation/delivery by the Project, the technical services of the administration and/or the control and supervision offices

2.3.7 Follow-up of recommendations from previous audits

The auditor shall review the recommendations set out in the previous audit reports, assess to what extent they have been applied and, where necessary, reassess their level of priority. Should it be found that these recommendations have not been applied, the auditor shall seek to find out the causes and propose solutions to regularize the situation.

3 Professional obligations

3.1 Standards and ethics

3.1.1 Professional standards to be applied

The auditor shall take account of the various guidelines applicable to the preparation of financial audit reports. However, **the required audit due diligence and the content of the audit report shall meet the requirements set out in these Terms of Reference.**

Regarding the application of ISA Standards, particular attention shall be paid to the following aspects:

- **Prohibited practices:** In accordance with the **ISA 240** Standard (Consideration of the risk of fraud and error in the auditing of accounts), it is important to identify and assess the risks of fraud, obtain or provide sufficient audit evidence for the analysis of these risks, and handle identified or suspected fraud appropriately
- **Laws and Regulations:** In the preparation of the audit approach and performance of the audit procedures, the Project's compliance with the laws and regulations that could potentially have a significant impact on the financial statements, as required by the **ISA 250** Standard (Consideration of the risk of misstatements in the accounts arising from non-compliance with the legal and regulatory texts), shall be assessed
- **Governance:** Communication with the Project managers responsible for Governance on the significant audit points in compliance with the **ISA 260** Standard (Communication of audit matters with those charged with Governance)
- **Risks:** In order to reduce the audit risks to a relatively low level, appropriate audit procedures shall be applied in response to risks of misstatement identified following the evaluation of the internal control system, in compliance with the **ISA 330** Standard (Audit procedures implemented by the auditor following their risk assessment)

In accordance with the **ISAE 3000** Standard, the auditor shall prepare audit documentation that provides:

- A sufficient and appropriate record of the work on which their audit report is based; and
- Information demonstrating that the audit has been planned and conducted in accordance with ISA Standards and in compliance with applicable legal and regulatory requirements

Audit documentation refers to the presentation of the audit procedures carried out, the relevant evidence collected, and the auditor's findings.

Audit file refers to one or several files or another form of storage, in physical or electronic form, containing the documentation concerning a specific mission.

3.1.2 Ethics and independence

The auditor shall respect the IFAC International Code of Ethics for Professional Accountants, prepared and published by the IFAC International Ethics Standards Board for Accountants.

This Code outlines the fundamental ethical principles for auditors regarding integrity, objectivity, independence, professional competence and due care, confidentiality, professional behavior, and technical standards.

3.2 Requirements concerning the auditor

3.2.1 Professional affiliation of the auditor

By accepting the present ToR, the auditor confirms that they fulfil at least one of the following conditions:

- They are a member of a national accounting or audit body or institute, which is itself a member of the International Federation of Accountants (IFAC); or
- They are a member of a national accounting or audit body or institute. While the entity is not a member of IFAC, the auditor undertakes to conduct this financial audit in accordance with IFAC standards and the ethics set out in the present ToR.

3.2.2 Qualifications and experience of the auditor and mission team

The auditor is backed up by a team with appropriate professional qualifications and experience in line with IFAC standards, in particular international audit standards, as well as experience in auditing the accounts of projects comparable in size and complexity to those of the Entity in question. In addition, the entire audit team shall have:

- Experience in auditing development assistance programs and projects financed by national and/or international institutions and/or donors comparable to AFD;
- Experience in procurement audits and technical audits⁴;
- Adequate knowledge of the relevant laws, regulations and standards in the country concerned would be an asset. This includes regulations on taxation, social security and employment, accounting and accounting information systems;
- Accredited knowledge of AFD's procurement requirements and Guidelines. This expertise needs to be demonstrated, for example through a certificate obtained following the e-learning modules on procurement for AFD-financed contracts⁵;
- A perfect command of English (or another official language of the country, Amharic);
- Experience in audits in the sector of activity of the Project.

⁴ To be retained only in the case of a procurement audit and technical audit.

⁵ <https://mooc-campus.afd.fr/login/index.php?lang=en>

3.2.3 Team profiles

3.2.3.1 Key experts

The experts who will play an important role in the mission are referred to as “key experts”.

Category 1 – (A Mission Director and Senior Auditor)

A Mission Director and Senior Auditor is a qualified expert with a Master’s degree or a relevant professional qualification in accounting and Financing and/or Auditing, Business Management, Business Administration, business administration, economics, and/or controlling. An expert in this category must be an associate or another person in a similar position. He/she must be a highly qualified expert with relevant professional qualifications, and has or has had responsibilities as head of mission and audit director in the field of financial auditing.

He/she must have **a minimum of 5-7 years of professional experience** as a qualified auditor in the field of auditing projects financed by international donors. He/she must have successful experience in managing audit teams. The Mission Director is responsible for the specific contract and its performance, as well as the report prepared on behalf of the firm.

Category 2 – (Auditor)

The auditor must be a qualified expert with an MA/MSc degree or a relevant professional qualification in accounting and Finance and/or auditing, business management, economics, and/or controlling. He/she must have **a minimum of 5 years of professional experience** as a qualified auditor in the field of auditing projects financed by international donors.

Category 3 – (E&S Auditor):

The E&S auditor must be a qualified expert with an MSc/MA degree or a relevant professional qualification in Environmental and Social Studies. An Environmental and Social (E&S) Auditor assesses, monitors, and reports on a project's compliance with environmental regulations, social policies, and Project standards (ESMF and Process Framework (PF)). He/she identifies risks, evaluates compliance gaps, and recommends corrective actions to minimize impacts. He/she must have **a minimum of 5 years of professional experience** as a qualified E&S auditor in the field of E&S auditing projects financed by international donors.

3.2.3.2 Support staff and technical assistance

Auditors are free to propose other support in their bids (administrative and/or technical). The cost of such support shall be included in the experts’ fees.

3.2.4 Resumé

The auditor shall provide the resumés of all the experts proposed as members of the audit team. The resumés shall contain information regarding the types of audit conducted by the members of the team, attesting to their skills and their ability to conduct the audit, as well as detailed information concerning any relevant specific experience.

3.2.5 Composition of the audit team

The audit firm shall present the audit team by category of expert, for example, in the format of the table below:

	Cat. 1: Mission Director and Senior Auditor	Cat. 2: Auditor	Cat. 3: E&S Auditor	TOTAL
Minimum n° of auditors	1	1	1	3
TOTAL	1	1	1	3

- 4 Annexes
- 4.1 Nomenclature of findings and anomalies
- 4.2 List of expenditures and findings (model)
- 4.3 AFD-M0134 Model Audit Report 2025⁶
- 4.4 Model Letter of Representation
- 4.5 List of contracts awarded⁷
- 4.6 AFD Explanatory Note on per diems

⁶ Model report to be adapted depending on the type of audit concerned.

⁷ In the case of a procurement audit, the Contracting Authority provides the auditor with the list of contracts.