**REQUEST FOR EXPRESSIONS OF INTEREST**

**(Financial Auditor)**

**Country:** Republic of Azerbaijan

**Name of project:** “Construction of The Main Irrigation Canal from The Maiden Tower Reservoir Project”

**Type of service:** Financial Auditor

Mode of Financing: Instalment sale and IsDB grant

Financing No. AZE-1024

 The Government of the Republic of Azerbaijan has received financing from the Islamic Development Bank toward the cost of the “Construction of The Main Irrigation Canal from The Maiden Tower Reservoir Project”, and intends to apply part of the proceeds for consultant services. The services include **Audit of Project’s Financial Statement and preparation of its Report**. Please refer to the General Procurement Notice for this project that appeared in IsDBs website, dated 19 December 2024.

 The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the Project Financial Statements (PFS) show true and fair view of the Project’s financial position for the period starting from the first disbursement date (expected date 15/05/2025) until the end of the project (expected date 15/05/2030) and funds receipts and expenditures incurred during the period then ending. (ii) Expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS, and for this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems. The Audit opinion should also state whether the Procurement Guidelines of the Islamic Development Bank have been properly applied and in accordance with the Project’s Financing Agreement No. AZE- 1024: (iii) the Executing Agency is compliant with the covenants of the financing agreements and the applicable laws and regulations; (iv) the Special Account (if any) presents fairly the availability of funds and the transactions made are in accordance with the provisions of the financing agreement; and (v) assess the adequacy of the internal control mechanisms and (vi) provide an opinion on the availability and utilization of counterpart financing (Government share of project financing)

 The Azerbaijan State Water Resources Agency, Administration of Facilities under Construction PLE now invites eligible consultants to indicate their interest in providing the services. The shortlisting criteria are as follows for the assignment: 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, including projects funded by international financial institutions or multilateral development banks. In the case of government auditing, the audit team should be adequately staffed with qualified auditors having relevant background and experience in auditing. The same audit principles should be applied if the audit is conducted by private or government auditors. The auditor must have a certificate issued by reputable international companies showing compliance with ISO 27001:2013 version of Information Security Management System.

The key audit team shall comprise at minimum:

a. An Audit Manager with at least 10 years of experience in auditing and has sound knowledge of IFI/MDBs financing procedures. He/ she should be a member of an ACCA.

b. A Team Leader with a minimum of 7 years of experience in auditing. He/ she should be a member of ACCA; and

c. An Assistant Auditor with 3-5 years of experience and professional qualifications.

Interested firms must provide information indicating that they are qualified to perform the services (brochures, description of similar assignments, experience in similar conditions, availability of appropriate skills among staff, etc.).

**The detailed Terms of Reference (TOR) for the assignment is attached to this request for expressions of interest (ANNEX 1).**

A consultant will be selected in accordance with the **Least Cost Selection (LCS)** method set out in the Guidelines for the Use of Consultants under Islamic Development Bank Financing (current edition).

Interested consultants may obtain further information at the address below during office hours***09:00 to 17:00* (local time).**

Expressions of interest must be delivered to the address below by April 7th 2025.

Azerbaijan State Water Resources Agency, Administration of Facilities under Construction PLE

Attention: Mr. Fuad Abishev, Deputy Chairman of the Board

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 **ANNEX 1**

**TERMS OF REFERENCE**

**FOR THE AUDIT OF THE “CONSTRUCTION OF THE MAIN IRRIGATION CANAL FROM THE MAIDEN TOWER RESERVOIR PROJECT”**

**FINANCED BY ISLAMIC DEVELOPMENT BANK**

**LOAN/GRANT NO. AZE 1024**

**IMPLEMENTED BY Azerbaijan State Water Resources Agency**

**DURING THE PERIOD FROM 2025 TO 2030**

1. **Project Background**

The Government of the Republic of Azerbaijan has received financing from the Islamic Development Bank (IsDB) to support “Construction of The Main Irrigation Canal from The Maiden Tower Reservoir Project” referred as “the Project” and it intends to apply part of the proceeds to payments for goods, works, related services and consulting services to be procured under this project. The proposed Program aims to improve construction an irrigation canal from the maiden tower water reservoir in Azerbaijan.

The Azerbaijan State Water Resources Agency, Administration of Facilities under Construction PLE is entrusted in the execution and supervision of the implementation of the project through a Project Management Unit (“PMU”). The legally binding terms and conditions of the financing are in the financing Agreement no. AZE-1024, which may be amplified by supplemental letters and /or an amendment. The Project Appraisal Document (PAD) Report is also a useful source of information, although it is not legally binding.

The project will include the following components:

**Component 1**: Climate Resilient and Smart Water Management Infrastructure Development and Agricultural Productivity Enhancement: This will develop a climate-resilient and smart water resource management system through the construction of a main canal with a length of 52 km and a sub-discharge capacity of 50 cubic meters per second from the Maiden Tower reservoir area on the Araz River and 252 km irrigation pipeline network on the liberated lands in Jabrail and Fuzuli regions located along the Araz River and providing reliable irrigation services in the Mil-Mugan zone. This component aims to develop climate-resilient and smart water management systems, improve efficiencies, and provide canal infrastructure protection measures and advanced irrigation techniques (such as Pivot Sprinklers, drip irrigation systems, etc.) to support sustainable agricultural growth of the project area. It will also support the development of smart monitoring and control systems, including SCADA, to provide real-time data management and maintenance for effective resilience against climate variability. The component also enables private sector investment opportunities, aligning with global sustainability trends and promising substantial returns through value addition and sustainable and efficient agricultural practices while establishing upstream facilities and enabling mid and downstream for Agro-Parks.

**Component 2**—Project Engineering Review and Construction Supervision Consultant Services : This component will provide support for reviewing the project’s detailed design, preparing the bidding documents for selecting the contractors, assisting the Executing Agency (EA) (Governing Body) in the selection process, and supervising the project implementation.

**Component 3** – Support to the Project Management Unit : This component will provide support for the Project Management (PMU) in terms of: (i) recruitment of additional technical staff (Procurement, Environmental Safeguard, Project Financial Management, and M&E Specialists) and payment of monthly allowances with related running costs.

**Component 4** – Capacity Building: This component will consist of the institutional and livelihood capacity development.

**Component 5**—Project’s Audit: This component will support the annual audit of the project’s Special Account.

**Component 6** – Contingency Emergency Response Component: This standalone zero-value component is embedded in the Project to allow for the use of the present Project resources to cover emergency response activities in case of highly unpredictable events such as disasters, pandemics, etc., as a support to the Government’s rapid emergency response efforts in the future. This can be done by reallocating Project funds, subject to a prior consultation with the IsDB.

1. **Context**

According to the Financing Agreement no. AZE-1024, (e.g., Executing Agency) the Governing Body of the Project shall at all times maintain a financial management system, including records and accounts, and prepare financial statements for the project in a format acceptable to the Islamic Development Bank and adequate to reflect the operations, resources and expenditures related to the Project. The Governing Body shall also maintain records and supporting documents for all expenditures with respect to which withdrawals from the financing were made (the records should reflect all categories of expenditures including withdrawals from the Special Account as well as direct payments).

It is envisaged that the Executing Agency will appoint certain Partner Financial Institutions (PFIs) to act as the implementing partners with the Executing Agency, as needed… This relationship will be established through an Implementing Agency agreement or such similar arrangement which should not be non-Shariah compliant.

The Project Financial Statements (“PFS”) are comprised of (i) Project balance sheet at the fiscal year closing date (ii) Statement of funds receipts and expenditures incurred on the Project for the year then ending (iii) Reconciliation statement for the balance of the Project’s Account as of year-end. For procurements of goods, works and services to the Project, the Governing Body is required to comply with the Islamic Development Bank’s Procurement Guidelines. The Financing Agreement requires that the records, accounts and financial statements mentioned above for each fiscal year to be audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank. Audited PFS along with its Auditor’s report should be submitted to the Islamic Development Bank as soon they become available but not later than six months after the end of the fiscal year. In fulfillment of this statutory (or Financing Agreement) requirement, the Governing Body should engage a qualified independent audit firm according to terms of reference and scope of work acceptable to the Islamic Development Bank, as summarized below.

1. **Audit Objectives**

The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the Project Financial Statements (PFS) show true and fair view of the Project’s financial position for the period starting from the first disbursement date (expected date 15/05/2025) until the end of the project (expected date 15/05/2030) and funds receipts and expenditures incurred during the period then ending. (ii) Expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS, and for this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems.

The Audit opinion should also state whether the Procurement Guidelines of the Islamic Development Bank have been properly applied and in accordance with the Project’s Financing Agreement No. AZE-1024: (iii) the Executing Agency is compliant with the covenants of the financing agreements and the applicable laws and regulations; (iv) the Special Account (if any) presents fairly the availability of funds and the transactions made are in accordance with the provisions of the financing agreement; and (v) assess the adequacy of the internal control mechanisms and (vi) provide an opinion on the availability and utilization of counterpart financing (Government share of project financing).

The financial reporting periods and relevant sources of funds subject of this audit is from 2025 to 2030, with respect to the “Construction of The Main Irrigation Canal from The Maiden Tower Reservoir Project” including the following sources of funds: (a) IsDB financing (Installment Sale Agreement No. AZE-1024), (b) respective counterpart funds; and (c) beneficiaries’ contributions (if any).

The information, both financial and non-financial, which is subject to verification by the auditor, is all information which makes it possible to verify that the expenditures claimed by the Project Management Unit (PMU) in Financial Statements have occurred, accurately recorded and eligible for financing under the Project Financing Agreement.

1. **Scope of the Audit**

The audit subject of this Terms of Reference is considered as a special purpose contractual agreement audit for which, in addition to compliance with international standards as explained below, the auditor needs to take into consideration the Islamic Development reporting requirements and compliance with Islamic Development Procurement Guidelines.

The audit will be carried out in accordance with the International Standards on Auditing (IAS) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFCA) or the Audit Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI), having regard to relevant financing agreements and Islamic Development Bank’s particular requirements, the auditor should pay attention to:

Fraud and Corruption: the audit shall consider the risk of material misstatement resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.

Laws and Regulations: the auditor shall evaluate the EA and PMU’s compliance with the provisions of law and regulations that might significantly affect the PFSs.

Governance: communicate to the EA and PMU management regarding significant audit issues related to governance.

Risks: with a view to reducing audit risk to a relatively low level, the auditor will apply appropriate audit procedures and handle anomalies/risks identified during their evaluation.

In particular, the auditor should pay special attention to the following:

* 1. All funds provided to the Project have been used, accounted for and classified in accordance with the relevant financing agreements.
	2. All the transactions related to the project are reflected in the PFS issued according to generally accepted Accounting Policies.
	3. Goods, works and services financed have been procured in accordance with the relevant financing agreement.
	4. 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 reports presented to the Bank.
	5. Compliance with specific covenants of the Financing Agreement, {*Project Framework Agreement and Agency Agreement*} (e.g., compliance with the short-term and long-term borrowing conditions, cash flow covenant);
	6. Eligibility of expenditures claimed under Statement of Expenditures submitted to the Islamic Development Bank for replenishment. This is in addition to substantiation of these expenditures.
	7. External funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.
	8. Counterpart funds have been provided and used in accordance with the relevant financing agreements, and only for the purposes for which they were provided.
	9. The fixed asset register is maintained for all fixed assets procured under the Project and all assets purchased through the IsDB financing are labelled with the IsDB name and logo as well as the serial number of the asset which should correspond with the serial number in the fixed asset register.
	10. The accounting and overall internal control system to monitor expenditures and other financial transactions are adequate and effective and ensures safe custody of Project financed assets.
	11. In conducting the audit, the auditor shall carry out a physical verification of any significant assets purchased and confirm their existence and use for project purposes.
	12. The Auditor will test the financial transactions against documentary or other evidence necessary to satisfy the auditor as to the authenticity and correctness of the transactions, their complete and proper citing in the books of accounts, financial performance and status.
	13. The Project Financial Statements (PFS) have been prepared in accordance with Cash Basis International Public Sector Accounting Standards (IPSAS) issued by International Accounting Standards Board (IASB), or other accounting standards compatible with IASB’s, and give a true and fair view of the financial status of the Project as of year-end so there will be 6 annual audits from 15/12/2025 to 15/12/2030 and of the resources and expenditures for the fiscal year then ending.
1. **Project Financial Statements (PFS)**

The PFS will include the following:

* 1. Yearly and cumulative statements of sources and application of funds, which should disclose separately, and with respect to the relevant financing agreements, IsDB funds, counterpart funds (Government), other donor funds and beneficiaries’ funds, if any.
	2. Balance sheet, which should disclose bank and cash balances (that should agree with the statement of sources and application of funds).
	3. Yearly and cumulative listing of disbursement application authorized and submitted to IsDB, indicating values and type of expenditures.
	4. A summary of transactions and reconciliation of the Special Account (SA) (please see the sample at the end of this TOR document) with the financial statements.
	5. Cumulative status of funds indicating total disbursement and expenditure in comparison to authorized allocations in the Financing Agreement.
	6. A statement of comparison between actual expenditures and annual budgets.
	7. A summary of the accounting policies and other explanatory notes accompanying the Financial Statements; and
	8. Reconciliation between the amounts shown as received by the Project and those shown as being disbursed by IsDB and/or other financiers (MDPs, Government and beneficiaries, if any) should be attached as an annex to the PFS. As part of the reconciliation, the auditor will indicate the procedure used for the disbursement – SA’ funds, reimbursement or direct payment – and indicate whether the expenditure is fully documented.
1. **Statements of Expenditures (SoE)**

In addition to the audit of PFS, the auditor is required to audit all Disbursement Applications for direct payments and SOEs / other documents used as the basis for the submission of withdrawal applications. The auditor should apply such tests and controls, as the auditor considers relevant and necessary under the circumstances. SOE expenditures should be carefully reviewed to ascertain the eligibility under the financing agreement and with reference to the RRP/PAD for guidance when necessary. Where ineligible expenditures are identified as having been included in disbursement applications and reimbursed, the auditor should separately note these. Annexed to the PFS should be a schedule listing individual SOE disbursement applications by specific reference number and amount. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IsDB and/or other financiers‟ disbursements described above. The auditor should pay particular attention as to whether:

1. the SOEs have been prepared in accordance with the provisions of the respective financing agreement;
2. expenditures have been made solely for the realization of the Project’s objectives;
3. information and explanation necessary for the purpose of the audit have been obtained;
4. supporting records and documents necessary for the purpose of the audit are accurate, reliable and have been retained; and
5. The SOEs can be relied upon to support the related withdrawal applications.
6. **Special Account**

In conjunction with the audit of the PFS, the auditor is also required to audit the activities of the SA associated with the projects, including the initial advance or deposit. The auditor must form an opinion as to the degree of compliance with IsDB procedures and the balance of the SA at year end. The audit should examine:

1. initial deposits and replenishments received from IsDB and/or other financiers (if any);
2. Payments substantiated by disbursement applications;
3. Interest that may accrue on the outstanding balances; and
4. The year-end balances, transfer of funds to operational banks accounts in national currency and the use of correct exchange rates to convert local currency expenditures to USD.

All transactions in the SA should be fully accounted for and be compliant with the financing agreement. As part of the opinion on the PFS, the audit report will include an opinion on SOEs and SA, indicating the extent to which these procedures can be relied upon as a basis for loan disbursements under the Project.

The auditor will be expected to review all correspondences with the Islamic Development Bank in relation to the Project including copies of the Aide Memoires, Mission Reports, and assess progress on all financial issues. The auditor will pay special attention to any specific risk area as mentioned in the project documents (such as PAD, etc.)

1. **Concurrent Verification**

To ensure proper use of funds, an independent auditor conducts a concurrent verification before each Project Special Account replenishment request. This verification confirms that funds were used for eligible expenses as outlined in the project's Financing Agreement and Disbursement Handbook. The audit scope includes the flow of funds from the PMU's Special Account to Participating Financial Institutions account and ultimately to the beneficiaries, if any.

1. **Audit Deliverables**
	1. There are two main deliverables of the audit engagement:

(i) **Audit Report** whichshall includean explicit professional opinion whether (a) the project financial statements give a true and fair view of the state of the Project's affairs, (b) expenditures reimbursed on basis of Statements of Expenditures are eligible to Bank financing and are reflected on the PFS. The Auditors should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Financing Agreement and express in the report any relevant exception and the impact of the exception on the PFS.

(ii) **Management Letter** which should report: (i) any significant accounting and control issues arising from the audit, as identified during the internal control mechanisms review together with the related risk. (ii) the economy, efficiency and effectiveness in the use of resources; and (iii) the degree of compliance with each of the financial covenants in financing agreement(s) recommendations for improvement, including internal and external matters affecting such compliance; (iv) the value of expenditures considered to be ineligible and either paid out of the Special Account(s) or which have been directly claimed from the Bank; and (v) matters which have come to the auditor’s attention during the course of the audit which might have a significant impact on the implementation of the project. The letter, with management responses, and recommendation to address the situation and insufficiencies, should be made available to the Project’s governing body in time. As an annex of the Management Letter the auditor will mention whether or not recommendations issued on the previous Management Letter have been considered by the PMU and/or Executing Agency.

* 1. As the implementation arrangement may involve using Partner Financial Institutions (PFIs) for channeling the funds from the EA to the ultimate beneficiary, the Auditor is required to verify and provide his evaluation/opinion on whether the PFIs are using the funding provided by IsDB for the intended purposes without exception. The Auditor will also check whether the financing from the EA to the PFI, if any, and from the PFI to the beneficiaries, if any, being provided using Islamic modes of financing and that the contracts, if any, are shariah compliant.
	2. The auditor’s examination should include an evaluation of the systems and operating procedures for accounting, custody of assets, control of environment, internal financial controls, financial reporting, and related systems.
	3. The auditor’s reports should adhere to the report formats required by International Standards on Auditing (ISAs), or the International Organization of Supreme Audit Institutions (INTOSAI), and to include the following matters:
	4. A title identifying the person or persons to whom the report is addressed.
	5. An introductory paragraph identifying the financial statements audited and the basis of accounting used for preparation of the financial statements.
	6. Separate sections, appropriately headed, dealing with:
		+ Respective responsibilities of project management (or equivalent persons)
		+ The basis of the auditor’s opinion
		+ The auditor’s opinion on the financial statements.
	7. The manuscript or printed signature of the auditors; and
	8. The date of the auditor’s report.
1. **General Principles for Audit**
	1. 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, including projects funded by international financial institutions or multilateral development banks. In the case of government auditing, the audit team should be adequately staffed with qualified auditors having relevant background and experience in auditing. The same audit principles should be applied if the audit is conducted by private or government auditors. The auditor must a have a certificate issued by reputable international companies showing compliance with ISO 27001:2013 version of Information Security Management System
	2. The key audit team shall comprise at minimum:
2. An Audit Manager with at least 10 years of experience in auditing and has sound knowledge of IFI/MDBs financing procedures. He/ she should be a member of an ACCA.
3. A Team Leader with a minimum of 7 years of experience in auditing. He/ she should be a member of ACCA; and
4. An Assistant Auditor with 3-5 years of experience and professional qualifications.
5. **Irregularities Including Fraud**
	1. The Executing Agency is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations, and for the prevention and detection of irregularities, including fraud. Although, the Auditors are not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditors have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud, or breach of regulations.
	2. The Auditors will report in writing any serious weaknesses, fraud, irregularities or accounting breakdowns that they come across in the normal course of their duties to the designated office holder, Executing Agency, and the Islamic Development Bank without delay.
6. **Access**
	1. The Auditors shall have rights of access to the books, accounts, vouchers, Financing Agreement, Project Agreement and related Supplemental Letters, Project Appraisal Document, correspondence, and all other documents in relation of the Project and to such information and explanations as auditors consider necessary to perform their duties and fulfill their responsibilities.
	2. In addition, the auditors will be provided with copies of the Islamic Development Bank’s relevant publications that the governing body has to recognize, including the Islamic Development Bank’s “*Procurement Guidelines*”.
	3. In turn, on occasions the Islamic Development Bank’s representatives may wish to meet with Projects' auditors, in connection with a visit to the auditor’s office, review of the audit working papers files and discussion of the work performed and conclusion reached by the auditors. The Auditor should not limit access in any way and must reply to all inquiries raised by the Islamic Development Bank’s representative. Failure to comply with this provision may disqualify the auditors from dealing with all projects funded or administered by the Islamic Development Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The Islamic Development Bank will have this exclusive right during performance of the audit and within two years after completion of the audit engagement.
	4. The auditor must disclose whether it is acting on behalf of, or part of a larger authority and any issues or relationships that might compromise their independence.
	5. The auditor should be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity and should not have any financial, personal or business relationship with the entity during the period covered by the audit.
7. **Miscellaneous**
	1. **Annual Meetings**. The Auditor will be requested to attend the meeting of the Executing Agency 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 Executing Agency is entitled to receive. The Auditor will discuss the audit report and management report and any part of the business which concerns the auditor.
	2. **Termination of Appointment.** If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the Islamic Development Bank, may pass a resolution to remove the Auditors before the expiry of their assignment.
	3. **Restriction of Auditor's Liability**. There is no limitation of the auditors' liability in respect of audit opinions given under this assignment. The Project’s Executing Agency will not agree to any such restriction on liability.
	4. The responsibility for the preparation of financial statements including adequate disclosure is that of the management Azerbaijan State Water Resources Agency, Administration of Facilities under Construction PLE. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.
	5. The financial statements, including the audit opinion, and management letter should be received by the Project’s Executing Agency, no later than six months after the end of the audited fiscal year. The Project’s implementing or executing agency should then promptly forward two copies of the audited project financial statements (including audit opinion) and management letter to the Bank.
8. **Engagement Letter**
	1. The auditor is required to prepare an engagement letter. The form and content should generally include reference to the matters addressed in this document. In addition, it should state the management’s responsibilities for the preparation of the PFSs, the auditor’s responsibilities for the opinion of the PFSs and internal controls, the amount of audit fees, and the timetable indicating the expected start date of the assignment and end date for providing the audit reports for the financial years of 2025, 2026, 2027, 2028, 2029 and 2030.

**Special Account Reconciliation Sample**

1. 