



RESERVE BANK OF MALAWI

FINANCIAL INCLUSION AND ENTREPRENEURSHIP SCALING (FInES) PROJECT

IDA CREDIT NO.: 6746-MW: (P168577)

REFERENCE NUMBER: MW-RBM-259367-CS-CQS

TERMS OF REFERENCE FOR EXTERNAL AUDIT SERVICES

1. BACKGROUND

The Malawi Government received funding from the International Development Association (IDA) of the World Bank to be applied towards increasing access to financial services, promoting entrepreneurship and capabilities of Micro, Small and Medium Entrepreneurs (MSMEs) in Malawi including addressing Covid-19 implications through the Financial Inclusion and Entrepreneurship Scaling (FInES) Project.

The Reserve Bank of Malawi is implementing the FInES Project. The project is financed by a credit of **SDR 62.7 Million (i.e. US\$86.0 Million)** for a **period of five years from December 10, 2020 to September 30, 2025**.

1.1 Project Components

The Project Development Objective (PDO) is being achieved through the following four components:

Component 1: Liquidity Enhancement for MSMEs

This component aims at increasing the supply of wholesale financing to the project's participating financial intermediaries (PFIs) and scaling lending and/or investments to MSMEs. The focus is on providing immediate relief and support for medium-term recovery and resilience of firms.

The component has two parts, namely Subcomponent 1.1: Credit line and special support for COVID-19 response for MSMEs, and technical assistance to participating financial intermediaries; and Subcomponent 1.2: De-risking financing to MSMEs.

Component 2: Scaling Entrepreneurship and Building Firm Capabilities

This component will facilitate the building of firms' capabilities, with measures to

enhance the quality of business support provided by private and public BDSs. This component will be delivered by competitively selected service providers (local and/or international). It will enhance firms' internal capabilities and increase their eligibility for financing. Women and youth entrepreneurs stand to benefit the most from the training.

Component 2 has two subcomponents, and these are Subcomponent 2.1: Building firm capabilities for SMEs and Subcomponent 2.2 Developing Capacity of SMEDI.

Under Component 2, the MoIT is the implementing agency. However, PIU provides required funding (mostly incremental operating costs) to the MoIT.

All the Financial Management - and procurement-related activities are centralized at the PIU.

Component 3: Enhancing the Enabling Environment for Supporting the Financial Inclusion and Growth of Entrepreneurs

This component builds on activities supported under the Financial Sector Technical Assistance Project (FSTAP). The FSTAP aimed to facilitate increased access to finance by Malawi's unbanked, but bankable, population.

This component has two subcomponents with Subcomponent 3.1 covering Improving Financial Infrastructure and Regulatory Framework and Subcomponent 3.2 covering Increasing Financial Literacy and Consumer Protection.

Component 4: Project Implementation Support

Funds under this component will be used to meet the costs of the Project Implementation Unit (PIU) in its capacity as the implementing entity, including costs related to fiduciary and safeguards aspects and monitoring and evaluation (M&E). An M&E system will be developed to monitor and track the progress of the project. The M&E activities include updating the baseline data based on information derived from ongoing surveys. This component also funds retroactive financing arrangement that may be required to finance studies and activities and help develop and implement the Covid-19 responses.

1.2 Project Institutional Arrangements

1.2.1 Reserve Bank of Malawi

The borrower is the Republic of Malawi, represented by the Ministry of Finance, but the RBM is responsible for the overall implementation of the project.

1.2.2 Project Steering Committee

The Project Steering Committee (PSC) was established in line with the Financing Agreement, Project Appraisal Document and Project Implementation Manual.

The Steering Committee is a high-level oversight body responsible for providing general policy guidance for the Project.

The PSC is chaired by the Secretary to the Treasury and Co- chaired by the Governor of the Reserve Bank of Malawi.

The other members of the PSC are: Deputy Governor, Economics & Regulation-Reserve Bank of Malawi; PS, Ministry of Industry; PS, Ministry of Economic Planning & Development; Executive Director, Reserve Bank of Malawi; President, Economics Association of Malawi; President, Financial Market Dealers Association; President, Bankers Association of Malawi; President, Insurance Association of Malawi; President, Malawi Chamber of Commerce and Industry; President, Microfinance Network

1.2.3 Project Technical Working Group

The Project Technical Working Group (TWG) was established under the PSC in line with the Project Appraisal Document (PAD) and Project Implementation Manual (PIM).

The TWG is responsible for providing technical guidance on the Project, stakeholder dialogue and monitoring Project impact.

The Project Manager is the Chairperson of the TWG. The other members are: the Director of Pensions and Financial Sector Policy; the Director for Debt and Aid Management; the Director of Public Finance Management Services, the Director of Bank Supervision; the Director of Micro-finance and Capital Market Supervision; the Director of National Payment System; the Director of Pension and Insurance Supervision; the Director of Economic Policy Research; the Director of Accounting and Finance; the Director of Financial Markets; the Director of Financial Sector Regulations and the Director of Cooperatives and SMEs.

1.2.4 Project Implementation Unit (PIU)

The PIU is headed by the Project Manager (PM) who is supported by the following key professionals: Procurement Specialist, Financial Management (FM) Specialist, M&E Specialist, Financial Services Specialist, Business Development Services Specialist, and Environmental/Social Development Specialist.

The PIU through the PM reports directly to the Governor of the RBM and is mainly responsible for:

- i. overseeing the day-to-day project implementation including coordinating the implementation of the Project activities with Ministry of Industry (MoI);
- ii. provision of fiduciary, procurement, monitoring and evaluation, environmental and social services of the project;
- iii. accounting for the utilization of project funds; and
- iv. serving as the secretariat for both the project steering committee and the project technical working group.

1.3 Project beneficiaries

1.3.1 Primary Beneficiaries

The primary beneficiaries of this Project are MSMEs that face constraints on access to financing for their businesses. MSMEs are benefiting from the availability of funds through the line of credit extended to PFIs and the Covid-19 emergency liquidity facility. They are also benefiting from possible access to early stage financing/venture capital (VC) for innovative start-ups and SMEs that are deemed to be transformative and to have potential for high growth and job creation. These funds are being channelled through the Malawi Agricultural and Industrial Investment Corporation (MAIIC).

The MSMEs will also benefit from the TOT intended to build their capabilities to enable these firms to participate in market linkages.

The eligible MSMEs are;

- MSMEs affected by the impact of Covid-19 on business revenues
- MSMEs seeking to transform/scale their current business
- MSMEs operating in key sectors such as agribusiness, exports and trade, clean energy, and e-commerce
- MSMEs with a good credit history have an opportunity to access the PCG

1.3.2 Other Beneficiaries

Other project beneficiaries include those lacking financial literacy skills and the unbanked who will benefit from the financial literacy program. The MSMEs that are affected by the Covid-19 emergency, and private sector MSME players that would normally would not receive payment from Government for providing goods and services to the public sector due to covid-19 are also being targeted as key beneficiaries.

1.3.3 Government agencies, ecosystem and BDS Providers

Government agencies (MoIT, MoF, RBM, MAIIC, and other financial entities) and ecosystem and BDS providers are also benefiting from this project, with most of this benefit taking the form of institutional strengthening and capacity building. PFIs are also beneficiaries from capacity building activities intended to enhance their capacity to adopt and implement innovative tools and DFS to better serve MSMEs.

1.4 Financial management arrangements

1.4.1 Funds Flow

The Project has one Foreign Currency (US\$) Denominated Account (FCDA) maintained with the RBM opened in the name of Financial Inclusion and Entrepreneurship Scaling Project (FInES). The FCDA receives funds from the IDA for both the Line of Credit and other project activities. The Project has also a corresponding Local Currency (MK) Denominated Account at Reserve Bank of Malawi which is used to pay suppliers and other project beneficiaries.

In addition, the Project has an operating (CCA) account at First Capital Bank.

The LoC and funding for equity/quasi-equity investments is extended to the participating Financial Institutions (PFIs) and MAIIC in Kwacha and regulated by the respective Credit Loan Agreements.

The PIU disburses funds to implementing agencies based on the agreed budgets and using a centralized payment system.

1.4.2 Disbursement Methods

Report Based Disbursement: The Project largely uses this disbursement method whereby the disbursement of funds is based on a six-month funds forecast, which is revised quarterly. The PIU retires the funds by accounting for them through the quarterly Interim Unaudited Financial Reports (IFR). The IFRs provide adequate information on the source of funds and how the funds have been utilized.

The IFRs are also used to document expenditures.

The other applicable disbursement methods include:

- Direct payment
- Reimbursement
- Special Commitment

1.4.3 External Audit and submission of audited financial statements

According to the Project Appraisal Document, the RBM auditors will also audit the project financial statements based on these terms of references (ToRs) to be agreed upon with the World Bank.

The FInES Project is required to submit audited financial statements to World Bank not later than six (6) months after the end of the financial year.

The Reserve Bank of Malawi would therefore like to engage the services of External Auditors to carry out an audit for FInES Project for the year ending December 31, 2021 with possibility of auditing the next two years. The

accounting period for this project follows the Reserve Bank of Malawi's fiscal year of 1st January to 31st December.

The accounting period to be covered by the first annual external audit of FInES Project is therefore from **1st January 2021 to 31st December, 2021.**

1.4.4 Expected Level of Disbursement

The expected cumulative disbursements up to 31st December 2021 is **USD28.67 Million** out of the total Project cost of **USD 86 million** in line with the Project Appraisal Document (PAD).

2. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the 2021 accounting period from 1st January 2021 to 31st December 2021.

The Project books of accounts provide the basis for preparation of the Project Financial Statements by FInES PIU and are established to reflect the financial transactions in respect of the project. The FInES PIU is responsible for maintaining adequate internal controls and supporting documentation for transactions.

3. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of PFSs including adequate disclosure is that of FInES PIU. The FInES PIU is also responsible for the selection and application of accounting policies. FInES PIU will prepare the PFS in accordance with the International Public Sector Accounting Standards (IPSAS), as issued by INTOSAI, and adopted by the Government of Malawi while the audit will be conducted in accordance with International Standards on Auditing (ISA), as issued by the International Auditing and Assurance Standards Board (IAASB).

The Auditor is responsible for forming and expressing opinions on the PFSs. The auditor would carry out the audit of the project in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), as issued by the INTOSAI. As part of audit process, the auditor may request from FInES PIU written confirmation concerning representations made in connection with the audit.

4. SCOPE OF THE AUDIT

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing

procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether the:

- a) World Bank financing has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided in the Development Credit Agreement signed between World Bank and the Malawi Government on 5th November 2020;
- b) Goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the World Bank Procurement Policies and Procedures;
- c) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- d) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
- e) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used;
- f) Financial performance of the project is satisfactory;
- g) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement;
- h) Assets procured from project funds are used for the intended project purposes only; and
- i) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) ***Fraud and Corruption:*** Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial

Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;

- b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by ISA 260: Communication of Audit Matters with those Charged with Governance; and
- d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by ISA 330: The Auditor's Procedures in Response to Assessed Risks.

5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date

The Project Financial Statements (PFSs) should include:

- a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- b) A summary of the activity in the Designated Account;
- c) A Statement of Financial Position (if deemed necessary);
- d) A Summary of the principal accounting policies that have been adopted, and other explanatory notes; and
- e) A list of material assets acquired or procured to date with project funds.

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as "received by the Project from the World Bank", with those shown as being disbursed by the Bank.

6. UNAUDITED INTERIM FINANCIAL REPORTS (IFRs)

In addition to the audit of the PFSs, the auditor is required to verify all SOEs or IFRs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE or IFR withdrawal applications by specific reference number and amount.

The total withdrawals under the IFR procedures should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. DESIGNATED ACCOUNT

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I).

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms. The Auditor will produce ten copies of the audit report.

OPTIONAL OPINIONS (To be included as appropriate, i.e. based on project FM risk, complexities, governance issues, etc. as identified during the Financial Management Assessment)

<i>Special Opinion</i>	<i>Possible Rationale</i>
<i>Provision and usage of Counterpart Funds (CF).</i>	<i>Past poor compliance with financing agreement terms relating respect to the provision and usage of CF or abuse of CF in the country or sector or Inadequate provision or inappropriate usage of Counterpart funds) could affect the successful implementation of the project.</i>
<i>Entities that received funds met eligibility criteria</i>	<i>A component or components of the project involves transferring/releasing of funds to only entities that meet certain eligibility criteria or Where Aide Memoire, FM supervision, technical audit reports or previous experience in sector points to non-compliance with Financing agreement terms relating to eligibility criteria or If entities receiving funds do not meet eligibility criteria, project implementation will be impacted adversely</i>
<i>Used of Funds by Communities and Decentralized Entities</i>	<i>Where funds are transferred to communities and decentralized entities under the project, and the assessed risk for this activity is high or substantial.</i>
<i>Use of Funds by NGOs</i>	<i>Where significant amounts of fund are transferred to NGOs and the assessed risk for this activity is high or substantial.</i>
<i>Use of Funds by line Ministries</i>	<i>Where significant amounts of fund are transferred to several line ministries and the assessed risk for this activity is high or substantial.</i>
<i>Delivery of specified/agreed outputs/services</i>	<i>Where a project is designed around a series of verifiable output/service levels to be achieved and disbursements are, at least in part, related to these outputs/services (e.g. a power company that is expected to increase power generation to certain specific levels in each quarter, year or specified date)</i>

9. MANAGEMENT LETTER

In addition to the audit report, the Auditor will prepare a “management letter” in which he/she will:

- (a) Give comments and observations on the accounting records, procedures, systems and controls that were examined during the course of the audit;
- (b) Identify specific deficiencies and areas of weakness in systems and controls and make recommendations for improvement;
- (c) Report on the degree of compliance with each of the financial covenants on the Financing Agreement and give comments, if any, on internal and external matters affecting such compliance;
- (d) Give comments on previous audits' recommendations that have not been satisfactorily implemented;
- (e) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (f) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation and sustainability of the project; and
- (g) Bring to the attention of both World Bank and borrower's attention any other matters that the Auditor considers pertinent.
- (h) Confirm that the project has maintained the non-current assets in good condition and that they are used only for the intended purpose.

Ideally, the management letter will include reactions/comments from FINES PIU management on the weaknesses noted by the Auditor.

10. AVAILABLE INFORMATION

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

It is recommended that the Auditor becomes familiar with the following Project documents:

- (a) Financing Agreement;
- (b) Subsidiary Agreement between Government and RBM
- (c) Subsidiary Financing Agreements with Participating Financial Institutions
- (d) Project Appraisal Document;
- (e) Project Implementation Manual
- (f) World Bank Disbursement Guidelines for projects dated 1st February 2017;
- (g) Disbursement and financial information letter;
- (h) World Bank Disbursement Handbook;
- (i) Aide Memoires and official communications with the Bank; and
- (j) Procurement rules and procedures for works, goods and services.

11. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than 6 months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

12. AUDITORS EXPERIENCE AND QUALIFICATIONS

The selected Auditor should be a firm of Certified Public Accountants or Auditors registered with the Chartered Institute of Accountants of Malawi (ICAM);

They shall hold a valid Malawi Accountants Board practicing license issued under the Public Accountants and Auditors Act;

They shall be required to have had a Practice Review within the last 3 years and must have at least a satisfactory rating for both the firm and the Engagement and Review Partners;

The firm should have relevant experience in accounting and auditing of development projects, especially donor-funded operations.

The key audit team where a private audit firm is used will comprise, at least:

- a. An audit manager with at least 10 years' experience in auditing and with a sound knowledge of donor-financed projects. In addition, he/she should be a member of a recognized accountancy professional body;
- b. A team leader with at least a Master's degree in auditing/accounting or equivalent with a minimum of 5 years' experience in auditing; and
- c. An assistant auditor with adequate experience and professional qualifications.

The firm shall maintain independence standards that are in compliance with the requirements of the International Federation of Accountants' (IFAC) Code of Ethics. In addition, firms will be required to show evidence of compliance with the relevant tax legislation prior to contract award.

13. SELECTION OF THE AUDIT FIRM WHERE A PRIVATE AUDIT FIRM IS USED

A Consultant will be selected in accordance with the **Consultant's Qualification –based Selection** as set out in the Procurement Regulations.

14. GENERAL ISSUES

14.1 AUDIT TIMETABLE

The Public Finance Management Act reporting requirements will be used by the auditor for the final audit reports. It is expected that the auditor will submit the audit report for the final audit by **1st May 2022**. If audit report is not submitted by the required deadline, the auditor instead will write to the Project Manager a letter explaining the reasons for the delay.

The reporting schedule for the audit of the **2021 Financial Year** will be as tabulated below:

DESCRIPTION OF REPORT	RESPONSIBILITY	DUE DATE
Audit Plan	Auditor	21 st February 2022
Draft Financial Statements	FINES PIU	24 th February 2022
Entrance Meeting,	Auditor/FINES PIU	28 st February 2022
Audit field Work and debriefing Meeting	Auditor	1 st March 2022 to 14 th April 2022
Draft Audit Report and Management Letter	Auditor	15 th April 2022
Final Audit Report and Management Letter	Auditor	1 st May 2022

14.2 AUDIT PLAN

The FINES Project Implementation Unit (PIU) will require a proposed work plan on how the auditor will conduct the final audits before commencement of assignment. The proposal should include proposed audit techniques to be applied when needed and the audit Programme.