Hashemite Kingdom of Jordan
Ministry of Water and Irrigation

Water Authority of Jordan

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External Audit and Review Engagement of World Bank- Supported Project for The Jordan Water Sector Efficiency Program (P176619)

funded by the International Bank for Reconstruction and Development (IBRD), the Agence Francaise de Developpement (AFD), and Global Concessional Financing Facility (GCFF) employed by the Water Authority of Jordan (WAJ)

Tender No.2/Supply/2025

Date

17/ 3/ 2025 -12 pm Jordan time

PROCUREMENT OF AUDIT SERVICES

The Jordan Water Sector Efficiency Program
((9560-JO) CFF TF NUMBER (TF0C1892))
AFD Agreement No. CJO1141 01 P

Financing Agreement number(s):	(9560-JO) CFF TF NUMBER (TF0C1892) **Credit Facility Agreement CJO1141 01 P**
Entity subject to the audit:	**The Water Authority of Jordan (WAJ)**
Country:	**Hashemite Kingdom of Jordan**
Contracting Authority:	**The Water Authority of Jordan (WAJ)**
Provisional audit contract conclusion date:	**< contract signature date >**
Period covered:	1. July 16, 2023 through December 31, 2024 2. January 1, 2025 through December 31, 2025

I- Context of the project:

1- Background of Jordan's Water Sector

Jordan faces severe water constraints as one of the world's most water-scarce countries. Climate change and population growth will further reduce water resource availability by an estimated 30 percent by 2040. Moreover, the refugee's influx has strained water services, affecting host communities. This has led to the recent shocks in Jordan's water and energy sectors which in turn have caused a sharp increase in the sector debt, impacting service sustainability and the country's fiscal position. Despite international support and budget assistance for energy and water sector reforms, financial sustainability and service provision risks persist.

The Jordan Reform Matrix (2018-2024) identifies energy and water reforms as crucial drivers for economic competitiveness and growth. The recently approved Water Sector Financial Sustainability Roadmap (FSR) outlines the government's plan to reduce sector debt accumulation and improve financial sustainability in the water sector by 2030. The Government of Jordan (GOJ) is actively managing the water sector through the Ministry of Water and Irrigation (MWI) and the Water Authority of Jordan (WAJ). Efficiency measures, such as Sustainable Capacity Building Improvements, sustainable non-revenue water (NRW) reduction, along with integrating Energy Efficiency (EE) and Renewable Energy (RE) measures, are key initiatives to enhance water management and supply.

The World Bank and other development partners will contribute to the Government's objectives to improve efficiency, service delivery and financial sustainability of the water sector, through the proposed Series of project (SOPs), with the SOP-1 financed by the International Bank for Reconstruction and Development (World Bank) , the Agence Française de Développement (AFD) and Global Concessional Financing Facility (GCFF) in the amount of US$300,000,000 (World Bank: US$200,000,000; AFD: Euro:46,000,000, and GCFF: US$50,000,000).

A map of The Hashemite Kingdom of Jordan Governorates

2- Project Description

a) Proposed interventions are grouped around five components:

- **Component 1**. Sustainable non-revenue water (NRW) reduction. This aims to improve efficiency by reducing waste of the available water resources (financial and commercial) and overall improvement in operational systems in the water sector, in support of adaptation to climate change impacts on water availability. This component would strengthen NRW systems in the country to improve planning, operationalization, and help sustain NRW reduction over time.
- **Component 2**. Increased energy efficiency and reduced energy supply costs. The water sector in Jordan requires significant energy for operation - energy costs represent over half of the water utilities' operational costs - due largely to pumping costs associated with the extraction of deep groundwater, and conveyance of water from the source to population centers. This component would improve the efficiency of the water sector by reducing energy used, costs, and GHG emissions.
- **Component 3.** Water security measures to underpin efficiency measures. Given Jordan's extreme water scarcity and frequent and intense droughts, improved water allocation will support different mechanisms to enable efficient and fair management of water shortages. This component will strengthen drought management with aims to apply a comprehensive drought risk management approach to increase capacity to monitor, forecast, plan for, and respond to droughts in the water sector. This component will also support preparation of studies for rehabilitation of water storage systems.
- **Component 4.** Project management and implementation support. This component would focus on project management required to implement this project and to strengthen systems for the planned SOP.
- **Component 5.** Contingency Emergency Response. A Contingency Emergency Response Component (CERC) with zero allocation would be created and made implementation-ready to allow the GoJ to respond quickly in case of an eligible emergency. The mechanism will be defined in a specific CERC Operational Manual that will clearly outline the triggers, eligible expenditures, procurement thresholds, and procedures for using part of IBRD resources of the project to respond quickly in the event of an eligible emergency. Component 5 CERC is not financed by the AFD credit facility.

b) **These components leverage Performance-Based Conditions (PBCs)** for priority activities that require a focus on institutional reform and strengthening. Component 1, supporting NRW reduction, includes PBCs focused on systematic planning, monitoring and reporting of NRW, improved Water Company (WC) performance and financial management (FM), and improved customer relationship management. Component 3 includes PBCs that focus on improved water allocation practices, drought management systems and improved risk assessments for surface water reservoirs.

c) **Implementation Arrangements and Disbursements**

- **Implementation Arrangements:** The JWSEP will be implemented by WAJ, MWI, JVA, and the three water companies' (Jordan Water Company (Miyahuna), Yarmouk Water Company and Aqaba Water Company), with oversight from a committee chaired by the Minister of Water & Irrigation (Oversight & Coordination Committee) and technical guidance form a Project Steering Committee (PSC). The Project Management

Directorate (PMD/PMU) within WAJ will handle overall management, supervision over day-to-day operations, and regular M&E activities supported by a Technical Assistant (TA) consultancy firm. The program implementation will be guided by a Project Operations Manual (POM) prepared by the PMD (PMU). The PMD will maintain a consistent reporting and coordination with the development partners of this project, the World Bank and the AFD, to ensure effective implementation and adherence to best practices.

- **Disbursements:** The project uses a Designated Account (DA). A US Dollar Designated Account (DA) was opened to WAJ in the Central Bank of Jordan (CBJ) to receive the loan proceeds to finance the project's activities. MWI, JVA, and the three water companies will open a Bank account (project special accounts or Sub-Accounts as defined in the AFD Credit Facility Agreement) in an acceptable bank to receive the advances from the DA. The bank accounts (the DA and project accounts) will solely be used for the project and in compliance with the provisions of WB Loan Agreements and the AFD Credit Facility Agreement. The advances from DA to the project accounts will be replenished, subject to submitting supporting documents showing the eligibility of expenditures made. Allocated amounts for the achievement of the PBCs will be disbursed to the Government Single Treasury Account at MOF in alignment with the loan agreements signed with the WB and the AFD.

Refer to the Project Documents for more details on project implementation arrangements, procurement plans and progress and current status of financing disbursement, publicly available at the link below:

- https://projects.worldbank.org/en/projects-operations/document-detail/P176619?type=projects

II- Audit Context, Objectives and Scope

The objective of the audit is to enable the auditor to express an audit opinion on the Project's annual financial statements for the period expending from July 16, 2023, to December 31, 2025. The auditor is also required to (i) review of the Semiannual Interim Unaudited Financial Reports (IFR's) to enable the auditor to undertake the process that is important to give a proper base for obtaining moderate assurance and (ii) review specific criteria for financing eligibility required by AFD, as specified below.

The audit will also review the controls and operating procedures implemented for complying with the World Bank Procurement Guidelines and the AFD's financing eligibility requirements, as well as their application.

The Project's accounting system (books and records) provides the basis for the preparation of the Project's audited financial statements, was established to record the financial transactions of the Project, and is maintained by the Project's implementing agency, The Water Authority of Jordan.

These TOR will form an integral part of the contract between the Water Authority of Jordan (the Contracting Authority) and the auditor.

1- Audit Context

According to the Loan agreement (9560-JO) CFF TF NUMBER (TF0C1892), 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 World Bank and adequate to reflect the operations, resources and expenditures related to the Project. Also, WAJ shall maintain records and supporting documents for all expenditures with respect to which withdrawals from the Loan Account were made (the records should reflect all categories of withdrawals SOEs, direct payments and replenishments of Designated Account).

WAJ shall ensure that Semiannual IFR's for the project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each semester (6 months) to which the report relate, in form and substance satisfactory to the World Bank.

According to Credit Facility Agreement CJO1141 01 P (the CFA) signed between the Hashemite Kingdom of Jordan and the AFD dated 20 November 2023, the auditing firm shall verify that all amounts drawn under the Facility and paid into the Designated Account and all the Sub-Accounts have been used in accordance with the terms of this Agreement.

According to the Article 11.5 (Procurement) of the CFA, the AFD will not finance its respective part of a contract to a Provider who is on any of the Financial Sanctions List (as defined in the CFA) due to its specific legal and regulatory obligations.

A duly signed AFD Covenant of Integrity shall be required from any applicant, bidder or consultant and shall be deemed to form a part of the contract. In cases of non-competitive procurement processes, the signed AFD Covenant of Integrity shall be appended to the contract.

The General Purpose Project Financial Statements ("PFS") are comprised of a (i) Statement of Cash Receipts and Payments by category for the year then ending and cumulatively from inception date up till the year ending including funds received from third parties (i.e. other sources) (ii) accounting policies and explanatory notes including a footnote disclosure on schedules like: the list of all signed Contracts per category showing Contract amounts committed, paid, and unpaid under each contract, Statement of Cash Payments classifying the uses of funds i.e. project expenditures by component showing yearly and cumulative balances, Reconciliation Statement for the balance of the Project's Designated Account as of year ending showing the opening & closing balances, and Fixed asset listing.

For procurements of goods and services to the Project, WAJ is required to comply with the World Bank Procurement Regulations. The Agreements require WAJ to have IFRs audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower, the Bank, and AFD.

2- Objective of the consulting assignment

The primary objective of the audit engagement is to enable the Auditor to express a professional opinion as to whether (a) the project financial statements present fairly, in all material respects, the cash receipts and payments of the project for the reporting period ending and cumulatively from inception date till year end in accordance with International Public Sector Accounting Standards, under the cash basis of accounting; (b) internal control over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures can be relied upon to support the related withdrawals; (c) The Projects were in all material respects in compliance with the laws, regulations, guidelines and provisions governed by the Loan agreements for both WB and AFD. Further, the Audit opinion should also state whether the AFD's financing eligibility requirements have been properly applied and in accordance with the CFA Article 11.5 (Procurement), including the presence of a duly signed AFD's Covenant of Integrity in all contracts and the verification of Financial Sanctions Lists. The audit will also review the semiannual IFRs is to enable the auditor to express moderate assurance that there are no material modifications that should be made to the IFR's of the project in order for the reports to be in conformity with the financial reporting framework of the World Bank and in form and substance satisfactory to the World Bank. For this purpose, the Auditor shall carry out the necessary examinations of the statements, underlying records, and internal control systems.

3- Scope of the assignment

The audit subject to this Terms of Reference is considered as a special purpose audit engagement and review engagement for which, in addition to compliance with international standards as explained below, the Auditor needs to take into consideration the effectiveness of internal controls over financial reporting, and ensures compliance with the laws, regulations, guidelines and provisions governed by the Loan agreements (including both the WB Loan agreement and AFD CFA referred above) such as the World Bank Reporting requirements, Disbursement guidelines, and Procurement Guidelines in order to provide assurance on the financial management and procurement arrangements of the projects. Accordingly, the Auditor should review and assess the conclusions drawn from the audit evidence during the engagement as the basis for the expression of a clear written audit opinion. The auditor is required to provide Professional Opinion on the review of the semiannual annual IFR's.

The audit will be carried out in accordance with International Standards on Auditing (ISA), having regard to relevant Loan agreements and World Bank particular requirements. The audit shall provide assurance on the effectiveness of the internal controls surrounding statements of expenditure. The scope of the audit procedures must be aligned with the World Bank scope requirements to ensure compliance with the engagement. Planning and conducting the audit will be in accordance with a risk based framework and a detailed and documented audit work program. The audit coverage will consider the risk of material misstatement as a result of error or fraud. A description of the nature, timing, and extent of the planned risk assessment procedures sufficient to assess the risk of material misstatement should be properly documented. A documentation of the assessment and determining of the audit materiality (ISA 320) and its relationship with audit risk when conducting an audit should be done. The audit program should include procedures, which are designed to provide reasonable assurance that material misstatements are detected. The audit scope should include procedures aimed at detecting potential fraud. Accordingly, the Auditor should be aware of his responsibility to consider fraud in the audit of the project financial statements as defined in ISA 240.

Accordingly, the Auditor should review and assess the conclusions drawn from the audit evidence during the engagement as the basis for the expression of a clear written audit opinion. Moreover, the Auditor should obtain from management a Representation Letter as evidence of management's assertions in the project financial statements in accordance with ISA 580. Adding to the, the auditor should conduct a review and evaluation of the semiannual IFR's of the project to identify whether changes are to be implemented if required.

Below is a brief summary of the audit areas that require special attention**:**

a) All funds disbursed or expenses incurred and paid under the Project are eligible, have been used, accounted for and classified in accordance with the relevant Loan agreements and all the disbursements made on behalf of the project are in accordance with the World bank disbursement guidelines;

b) The PFS are prepared in accordance with the International Public Sector Accounting Standards, under the accrual basis of accounting and give a true and fair view of the financial operations of the project within the year. Any material deviations from those standards and the impact of such departures on the project financial statements as presented would be stated;

c) An assessment of the effectiveness of the internal controls over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed on the basis of Statements of Expenditures can be relied upon to support the related withdrawals;

d) Goods and services financed have been procured in accordance with "World Bank Procurement Regulations for IPF Borrowers", dated November 2020 and AFD's financing eligibility requirements have been properly applied and in accordance with the CFA Article 11.5 (Procurement), including the presence of a duly signed AFD's Covenant of Integrity in all contracts and the verification of Financial Sanctions Lists;

e) Specifically, compliance with the AFD's financing eligibility requirements includes:

    i) A signed AFD Covenant of Integrity shall be considered an integral part of all eligible contracts. In cases of competitive procurement processes, the AFD Covenant of Integrity must be included in the tender documents. In cases of non-competitive procurement processes, the signed Covenant of Integrity must be appended to the contract.

    ii) Verification that the Financial Sanctions List (as defined in the CFA) has been checked prior to contract award.

    iii) For contracts subject to an International Procurement Competition, the Contracting Authority must ensure that all Requests for Expressions of Interest, Prequalification Invitations, Initial Selection Invitations, or Invitations for Bids, as well as the Contract Award Notice, are published on the website http://afd.dgmarket.com, in accordance with the specified terms.

f) All necessary copy of supporting documents, records, and accounts have been kept in respect of all sub-projects under the JWSEP. Clear linkages should exist between the books of account and the PFS presented to the Bank;

g) The Designated Account and sub-accounts used by the implementing agencies have been used, they have been maintained in accordance with the provisions of the relevant Loan agreement;

h) Project expenditures as reported by WAJ are reconciled with the amounts withdrawn from the Designated Account and sub-accounts and the amounts deposited to the Designated account and sub-accounts are reconciled with the amounts disbursed from the Loan agreement;

i) Eligibility of expenditures claimed submitted to the World Bank for replenishment. This is in addition to substantiation of these expenditures;

j) An assessment of project implementation and whether financial and physical progress is consistent during the project period. The monitoring of the expenditures in relation to physical progress is validating that physical progress and disbursements are under proper financial control;

k) Ensure that the fixed assets financed by the project are purchased in accordance with contracts and payment documents, are used for the purpose for which they were acquired and are physically existent;

l) Verify that checks are signed by those authorized by management and negotiated by the intended payee under a specific contract and as required under the terms of the Loan agreement. The Auditor will be expected to review all correspondences with the World Bank and AFD 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.

4- Period(s) Covered

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- The first audit should cover the period from July 16, 2023, to December 31, 2025;
- The second audit should cover the period from January 1, 2026 to December, 31 2026.
- This assignment is subject to extension for the Deadline for the Use of Funds (set by the Financing Agreements at the date of 31/12/2028). The extension will possibly include:
    - The next 2 audits shall be conducted on an annual basis, covering calendar years from 1 January to 31 December, for each of the years 2027, and 2028
    - The Final Audit Report of the Project shall cover the full Project implementation period. It may be completed together with Year 2028 audit report provided respected deadlines defined in Financing Agreement for reports submission are respected (i.e. before 31/12/2028).

The total number of audit reports should therefore be 2, as follows:

- 7/16/2023 – 12/31/2025;
- 1/1/ 2026 –12/31/2026.

And if an extension is warranted and agreed, the scope will include 2 more annual audit reports and a final audit report, as follows:

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- 1/1/2027 –12/31/2027;
- 1/1/2028 –12/31/2028;
- Final Audit Report covering the whole project implementation period.

The auditor should review the recommendations contained in previous audit reports, assess their degree of implementation and re-assess their priority level, if required. If it is found that these recommendations have not been applied, the auditor tries to identify the underlying causes and proposes solutions or adjustments.

III- Audit Deliverables, Reporting Requirements and Timeframe

1- Audit Deliverables and Reporting Requirements

All reporting shall be in English Language, the Auditor is to submit a soft copy and five hard copies of each report.

For all sub-projects, the following is requested as deliverables on a yearly basis from the audit engagement. The first deliverable will cover the period from July 16, 2023 through December 31, 2025.

a) **Yearly Audit Report** for all projects which shall include an explicit professional opinion of whether

The General-Purpose Project Financial Statements (PFS) present fairly, in all material respects, the cash receipts and payments of the Project for the reporting period ending and showing cumulative balances as at each reporting period in accordance with the International Public Sector Accounting Standards (IPSAS), under the cash basis of accounting;

Internal control over financial reporting involved in the preparation of replenishments, direct payments, payments through special commitments, and reimbursements i.e. expenditures reimbursed can be relied upon to support the related withdrawals; and

The project was in all material respects in compliance with the laws, regulations, guidelines, and provisions governed by the Loan agreements.

The Auditor should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Loan agreements and express in the report any relevant exception and the impact of the exception on the IFRs.

b) **A Yearly Combined Management Letter,** which should report any significant issues related to accounting, control and operating procedures implemented of the Implementing Agencies: WAJ, MWI, JVA, and WCs arising from the audit of the project, as identified during the internal control mechanisms review together with the related risk. The letter, with management responses, and recommendation to address the situation and insufficiencies, should be made available to the Governing Body in time. As annex of the Management Letter, the Auditor will mention whether or not recommendations issued on the previous Management Letter have been considered by the Project management Unit.

c) **Semiannual IFRs reviews.** The auditor should prepare a semiannual review report of the project semiannual IFR's prepared by PMU .A total of four (4) review reports are required for the first two audit report:

- Review of the semiannual IFRs extending from January 1, 2025 to June 30, 2025;

- Review of the semiannual IFRs extending from July 1, 2025 to December 31, 2025.
- Review of the semiannual IFRs extending from January 1, 2026 to June 30, 2026;
- Review of the semiannual IFRs extending from July 1, 2026 to December 31, 2026.
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2) Timeframe

The auditor should prepare the draft report of the annual audit, including the Yearly Combined Management Letter within a period of (3) months from the end of the fiscal year (by end of March), and send this Draft Report to WAJ for review and comments within (2) weeks (mid - April). In case an additional period is needed to submit comments, WAJ shall inform the auditor and the other parties in advance. The auditor integrates the comments and sends the Final Report within (2) weeks of receiving the comments (end of April).

The auditor should submit the IFR review reports to the client as soon as they become available but not later than (1) months from the end of each 6-months period. .

IV- Qualifications

The Auditor should be registered as certified public accountant with the appropriate professional body in the country and have substantial experience in auditing major projects in the country. In case of government auditing, the audit team should be adequately staffed with qualified Auditors having relevant background and experience in auditing. Training and continued education should emphasize auditing standards, work paper techniques and audit documentation to ensure engagements comply with professional standards. The same audit principles should be applied if the audit is conducted by private or government Auditors. The Auditor shall ensure that its audit firm's system of quality control provides reasonable assurance that the work performed on an audit engagement meets the applicable professional standards and regulatory requirements.

1. Key Experts:

Experts who are to perform an important role in the mission are referred to as "Key Experts".

K-1: Audit Partner

An Audit partner should be a partner or other person in a position similar to that of a partner and be a highly qualified expert with relevant professional qualifications, and assuming or having assumed team leader and supervisor responsibilities in financial audit practice. He should be a member of a national or international accounting or auditing body or institution. He must have at least 15 years of experience as a professional auditor or accountant, in the field of donor-funded projects audit. The audit partner is the person responsible for the specific contract and its performance as well as for the report that is issued on behalf of the firm.

K-2: Team Leader

Team Leader(s) should be qualified expert(s) with a relevant university degree or professional qualification in accounting and/or auditing, procurement, works auditing and/or supervision. They must have at least 10 years of experience as a professional auditor in the field of donor-funded projects audit. They must demonstrate successful experience in managing audit teams.

K-3: Supervisor

Supervisors should be qualified experts with a university degree or relevant professional qualification in accounting and/or auditing, procurement, works auditing and/or supervision and have at least 5 years of experience as a professional auditor in the field of donor-funded projects audit.

K-4: Senior Auditor

Senior auditors should be qualified experts with a university degree or relevant professional qualification in accounting and/or auditing, procurement, works auditing and/or supervision and have at least 7 years of experience as a professional auditor in the field of donor-funded projects audit.

2. **Non-Key Experts:**

N-1: Assistant Auditor

Assistant auditors must have a university degree in accounting and/or auditing, procurement, works auditing and/or supervision of work and have at least 1 year of professional experience as a professional auditor in the field of donor-funded projects audit.

3. **Support Staff and Technical Support**

The auditor is free to propose additional support (administrative and/or technical) in his/her bid, the cost of which should then be incorporated in the expert fees

V- Irregularities Including Fraud

WAJ is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations, and for the prevention and detection of irregularities, including fraud. Although, the Auditor is not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditor have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, fraud, or breach of regulations.

The Auditor will report in writing any serious weaknesses, fraud, irregularities or accounting break-downs that they come across in the normal course of their duties to the designated office holder, WAJ, the World Bank, and AFD without delay.

VI- Access

The Auditor shall have rights of access to the books, accounts, vouchers, Loan Agreements, Subsidiary Agreements, WC Cooperation Agreements, procurement plan, related Supplemental Letters, Project Appraisal Document (PAD), 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.

In addition, the Auditors will be provided with copies of the World Bank relevant publications that WAJ has to recognize including:(i) Financial Monitoring Reports for the World Bank – Financed project: Guidelines for Borrowers (ii) the World Bank “Procurement Guidelines” (iii) the World Bank “Disbursement Guidelines”

In turn, on occasions the World Bank and/or AFD representatives may wish to meet with Projects' Auditors, in connection with a visit to the Auditor’s office, review of the audit working papers files and discussion of the work performed and conclusion reached by the Auditors. The Auditor should not limit access in any way and must reply to all inquiries raised by the World Bank and/or AFD representative. Failure to comply with this provision may disqualify the Auditors from dealing with all projects funded or administered by the World Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The World Bank, and/or the AFD will have this exclusive right during performance of the audit and within two years after the completion of the audit engagement.