



# UNIDADE DE GESTÃO DE PROJECTOS ESPECIAIS

Av. China, Edif. Tribunal Constitucional, 3º andar  
CP: 145, Chã-d'Areia, Cidade da Praia, Cabo Verde  
Telefones: (+238) 261 75 84 / 261 61 98

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## DEVELOPMENT OF FINANCIAL AND ACCOUNTING AUDITS FOR THE RENEWABLE ENERGY AND IMPROVED UTILITY PERFORMANCE PROJECT FOR THE PERIODS 2022, 2023, 2024

### TERMS OF REFERENCE

#### *Introduction*

1. The Government of Cabo Verde has received from the International Development Association – IDA / World Bank (hereafter named “World Bank”) the IDA Credit ref. 6993-CV, from the International Bank for Reconstruction and Development, the IBRD Loan 9298-CV (hereafter named “World Bank”), from Canada Trust Fund, the Trust Fund 0B6576 and from Global Infrastructure Facility Trust Fund, the Trust Fund TF06853, to fund the implementation of the Renewable Energy and Improved Utility Performance Project (hereafter named “The Project”) aiming at (i) increasing renewable energy generation; and (ii) improving the performance of the electricity utility in Cabo Verde by leveraging private finance, and intends to apply part of the IDA Credit 6993-CV for: Development of Financial and Accounting Audits for the Renewable Energy and Improved Utility Performance Project.

In order to coordinate the actions that should be executed throughout the Project, the Government has established the Management Unit for Special Projects (Unidade de Gestão de Projetos Especiais - UGPE) that ensures the coordination of all the activities needed for Project execution, especially the fiduciary management of the Project. The audit services will, under the present terms of references, be entirely funded by the above-referred IDA Credit 6993-CV.

The Project consists of the following components:

**Component 1: Renewable and Efficient Electricity Service (US\$12.5 million of which US\$3.5 million IBRD, US\$1.5 million IDA, US\$7.0 million CCEFCE concessional loan, and US\$0.5 million CCEFCE gender grant).** This Component will finance investments to integrate additional Variable Renewable Energy (VRE) into the grid and provide sustainable and resilient electricity services to public health buildings; Component 2 will provide transaction advisory services for the restructuring and privatization of ELECTRA; and Component 3 will provide project preparation and implementation support to the PIU, as well as technical assistance and capacity building to the National Directorate of Industry, Commerce and Industry (Direção Nacional da Indústria, Comércio e Energia, DNICE) for improved energy system planning to efficiently meeting the goals under the Power Sector Master Plan.



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**Sub-component 1.a: Small-scale variable renewable energy integration (US\$10.5 million – US\$3.5 million IBRD and US\$7.0 million CCEFCE):** Based on the priority needs of the GoCV in the first phase of the power sector Master Plan, this sub-component will finance the development of the following small-scale solar PV projects: 1.3 MW on Fogo; 1.2 MW on Santo Antão; 0.4 MW on Maio; and 0.4 MW on São Nicolau islands at an estimated cost of US\$4.75 million. Pre-feasibility studies have already been conducted to identify the locations and size of the power plants. The final designs will be completed by the Owner's Engineer to be hired by the project shortly after Effectiveness. Market sounding indicates that these small-scale power plants are unlikely to attract private developers due to their small scale and geographical dispersion, which is expected to result in limited competition and high transaction costs. Therefore, the construction of the plants will therefore be implemented as EPC contracts with public financing. The GoCV plans to competitively tender the operation and maintenance (O&M) of these plants to local private operators, who will sell electricity to the TSO and be remunerated for their services using a portion of these revenues. This approach is in line with the GoCV's strategy to promote and develop local content and expertise to manage, operate and maintain small scale solar power plants.

**To facilitate integration of the small-scale solar plants into the grid, this sub-component will finance power transmission lines to connect the plants to the grid, as well as battery energy storage systems** to optimize production of the small-scale power plants and support voltage and frequency regulation in the grid, at an estimated cost of US\$2.25 million and US\$3.5 million, respectively. Pre-feasibility studies have already been conducted for the design of the power evacuation lines, and the final designs will be completed by the Owner's Engineer to be hired by the project shortly after Effectiveness. The design of the battery energy storage systems will be informed by the results of an ongoing study financed with an ESMAP grant (US\$190,000) to better estimate the technical and financial feasibility of the storage needs across the archipelago and identify the optimal location of investments.

**A Climate Change and Disaster Risk and Vulnerability Assessment funded by the Africa Climate Resilient Infrastructure Investment Facility (AFRI-RES) is underway** and will provide an assessment of vulnerability of the project's investments to climate and disaster risks. This study will also provide recommendations for resilience measures that can be incorporated into the project design (including to include relevant risks in bidding documents for electrification works). Examples of such resilience measures include: provision of appropriate anchorage support; deep foundation and size of footings to adapt against extreme wind and flooding; elevate control room and critical equipment to reduce flood hazard potential; use of steel, concrete or composite towers; creation of vegetation buffers, etc.



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**Sub-component 1.b: Resilient and Efficient Electricity Services to Public Health Facilities (US\$2.0 million - US\$1.5 million IDA, US\$0.5 million CCEFCF gender grant):** The GoCV seeks to reduce the burden of energy on public health services, improve the quality of healthcare services, and decrease the use of fossil fuels for the public sector. These objectives have become more urgent in the context of the COVID-19 pandemic, where the demands on the healthcare sector have increased dramatically. This sub-component will finance public investments in rooftop solar PV systems and energy efficiency on public health buildings, including public hospitals and health centers. Forty-one (41) public health buildings have been identified across the 9 islands; this will cover all the public health buildings that have not already benefited from rooftop PV investments under the World Bank's Distributed Solar Energy Systems project (P151979). This sub-component was prepared in coordination with the Bank-financed project in Cabo Verde: COVID-19 Emergency Response Project (P173857) being implemented by the UGPE and the MoHSS. The final design of the rooftop PV systems and energy efficiency investments will be informed by the results of a technical consultancy to be financed under Component 3 of the project, which will be initiated prior to project Effectiveness, and will also consider resilience measures identified in the Project's climate risk assessment described above.

**Investments in energy efficiency and distributed rooftop solar PV systems in public health buildings will support the achievement of multiple strategic objectives of the government,** including: (i) reduce the burden of electricity on the fiscal obligations of the public sector by reducing public building energy use and offsetting grid-supplied electricity with onsite generation from solar; (ii) reduce ELECTRA's arrears from public sector clients, who tend to be delayed in paying electricity bills; (iii) increase the resilience of the public health sector by providing back-up power options in case of power outages due to natural or other disasters; and, (iv) greening of the cold chain for provision of health services to support the deployment of the COVID-19 vaccine and other routine vaccinations programs.

**This sub-component will also support of narrowing gender gaps in Cabo Verde, namely the gap in women's employment within the energy sector.** In particular, women's labor force participation in Cabo Verde was found to be almost 15 percentage points below the rate for men, with an even wider gap within the energy sector. Gender bias in skills development and skilled labor market as well as low enrolment in technical trainings were also identified, as described in the Gender Gap Analysis (see Annex 4). The Project will provide women with training programs and subsequent long-term employment opportunities in rooftop PV system operation and maintenance (O&M) services. The gender activities will be implemented by UGPE in collaboration with the Center for Renewable Energy and Industrial Maintenance (Centro de Energias Renováveis e Manutenção Industrial, CERMI), a public corporation that provides professional and technical trainings, certifications, and a business incubator program. UGPE will partner with CERMI to (i) offer technical and business trainings for the provision of solar PV O&M services, (ii) provide business incubation to these trainees to establish their own solar



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PV O&M companies, and (iii) contract these incubated businesses to perform the O&M services for the first two years after the systems are installed. CERMI will monitor and support these new businesses, ensuring quality control and guiding the entrepreneurs through operational, commercial and other challenges that may arise. CERMI will ensure at least 35 percent female participation in the training programs (compared to a current baseline of 20 percent) and at least 30 percent female employees in non-administrative positions of the newly established O&M companies.

**Component 2: Advisory Services for Electricity Sector Restructuring and Privatization (US\$2.0 million GIF).** As described above, the main objectives of the privatization is to reduce the fiscal burden of the energy sector on public sector and reduce system losses through improved management. In order to ensure these goals will be met, the AP sets out that the privatization will be executed using a regulation by contract approach, meaning that a self-contained concession agreement will include all of the key conditions on economic regulation of the concession (methodology and procedures for setting and periodically adjusting Revenue Requirement of the distribution company under a performance based multi-year tariff regime, tariff structure and charges in each and all tariff categories, etc.), service quality regulations, rights/obligations of the concessionaire and government (including those regarding disconnection of customers due to commercial debts, management of cases of theft and fraud in electricity consumption, regular payment of electricity bills of government agencies), provisions for international arbitration, etc. To incentivize loss reductions, the concession contract will include starting values of tariff rates and procedures for periodic adjustment within the initial multi-year period following handover of DisCo management and operations to private owner, and these values will be set considering a regulatory allowance on total losses. If the DisCo owner exceeds the loss reduction targets in the regulatory allowance it will be able to earn additional profits; conversely, if these targets are not met, it will suffer direct profit loss.

**This component provide additional advisory services and technical assistance to support the GoCV in the implementation of the AP for the restructuring and privatization of ELECTRA,** building on the AP prepared under the the SOE Related Fiscal Management Project (P160796) and supported by the Cabo Verde First Equitable and Sustainable Recovery Development Policy Financing (DPF; P174754), as described in Section B above. These additional advisory services will focus on two key areas: implementation of the privatization AP and technical assistance to ensure sustainability of the sector restructuring and privatization of ELECTRA.

**Implementation of the privatization AP.** This pillar will include the following scope of work: (i) update of the AP to include due diligence and asset valuation of AEB, if an agreement is reached between the GoCV and AEB to repurchase of AEB's privately held shares; (ii) launch of the bidding processes for the new GenCo and DisCo, and provide advisory services up to financial closure of a contractual agreements with the successful bidders; and, (iii) design of de-risking and payment support mechanism(s) to support the





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privatization of ELECTRA as well as for the ongoing IPP program under the Power Sector Master Plan, taking into consideration the new institutional arrangements that will be put in place as part of the privatization AP. The estimated cost for Phase 2 is US\$740,000.

**Technical Assistance for sustainability of the restructuring and privatization.** This pillar will provide technical assistance and capacity building to sector stakeholders to ensure a successful and sustainable implementation of the AP for restructuring and privatization of the electricity sector at an estimated cost of US\$1,260,000. This activities to be supported include:

- Preparation of implementation arrangements for institutional reforms and organizational restructuring identified under the AP, and support to implement the new institutional framework.
- Preparation of an incorporation plan for the new generation and distribution companies into joint stock companies and support in its implementation.
- Technical assistance to the Transmission System Operator (TSO) in its first three years of operation to ensure smooth and reliable operation of the system under the newly restructured electricity sector, including with the newly incorporated generation and distribution companies.
- Technical assistance to the national utility regulator ARME: (a) preparation of a roadmap for phased implementation and strict enforcement of approved Quality of Service (QoS) regulations; (b) definition and implementation of regulations for accessing databases for infrastructure assets used for delivery of regulated services supported by Geographic Information System (GIS), and other Information Technology (IT) applications; (c) establishment of protocols to collect information needed to carryout oversight duties; (d) definition of procedures for allocation of revenues from payments of bills made by electricity consumers to transactions across the electricity supply chain and arrangements for implementation and monitoring;; and, (e) training on how to access and use operator's information systems.
- Technical assistance in the development of a Social Plan to address any future labor-force implications of the privatization process that may arise after the DisCo concession is signed.

**Component 3: Project Implementation Support and Technical Assistance (US\$2.0 million IDA):** This component will provide support for the preparation and implementation of the project as well as support to DNICE to improve power system



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planning capabilities to supporting the implementation of the Master Plan for the Power Sector in the context of the restructuring and privatization of ELECTRA.

**Sub-component 3.a: Project preparation and implementation support (US\$1.5 million IDA):** This sub-component will support incremental expenses related to the project's preparation and implementation, including the hiring of: (i) a consultant to prepare the final environmental and social safeguard studies for the activities under Component 1; (ii) a consultant to prepare a technical study on the distributed generation component; (iii) dedicated electrical / power engineer and accountant staff within the UGPE; (iv) an owner's engineer to prepare technical specifications for the investments under Component 1(a), as well as supervise their construction and implementation; (v) a consultant to undertake a communication campaign to scale-up the distributed generation component; (vi) an independent auditor for the project; (vii) capacity building to the UGPE and other sector stakeholders, as needed; (viii) project operating costs.

**Sub-component 3.b: Technical assistance and capacity building (US\$0.5 million IDA).** This sub-component will provide technical assistance to the DNICE, under the Ministry of Industry, Commerce and Energy (Ministério da Indústria, Comércio e Energia, MICE) to support: (i) establishment of a dedicated planning department within the Ministry; (ii) definition of a roadmap for the systematization of the energy planning function, and (iii) supervision of concessions in the energy sector. This work is complementary to the transaction advisory services activities under Component 2 of the project, focusing on the needs of DNICE key stakeholders to supervise and implement the new electricity sector structure as well as improve planning to support achieved of the Power Sector Master Plan.

The World Bank's Audit rules require, annually, a financial report and the audit of Project's accounts, of Designated Account and of the Statement of Expenditure (SOEs). In this perspective, independent external auditors are required.

The Project's financial statements, carried out by the UGPE are prepared to give account of the set of the Project financial transactions that comprises the following funding sources: IDA Credit ref. 6993-CV, the IBRD Loan 9298-CV, the Canada Trust Fund TF0B6576 and the Global Infrastructure Facility Trust Fund TF06853 for the Project.

### **Objective**

2. The objective of the audit of the project's financial statements is to enable the auditor to express a professional opinion on the Project financial positions as at the end of each fiscal years 2022, 2023 and 2024, and of the income and expenditure for the accounting period ending on that date. The project's books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of each project.



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### *Responsibility for preparation of financial statements*

3. The UGPE is responsible for the preparation of financial statements, including the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

### *Scope*

4. The audit will be conducted in accordance with [International Standards on Auditing](#). Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
5. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:
  - (a) In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud, as required by International Standard on Auditing 240.
  - (b) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements, as required by International Standard on Auditing 250.
  - (c) The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by International Standard on Auditing 260.
  - (d) The auditor should appropriately communicate to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of financial statements, as required by International Standard on Auditing 265.
  - (e) To reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level, as required by International Standard on Auditing 330.
  - (f) When certain aspects of an entity's operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by International Standard on Auditing 402.



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- (g) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by International Standard on Auditing 580.
  - (h) When the external auditor decides to use the work of an entity's internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with International Standard on Auditing 610.
  - (i) In determining whether to use the work of an auditor's expert or the extent to which the work of an auditor's expert is adequate for audit purposes, the determination shall be made in accordance with International Standard on Auditing 620.
6. In evidencing compliance with agreed project financing arrangements, the auditor is expected to carry out tests to confirm that:
- (a) All 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. Relevant financing agreements include IDA Credit ref. 6993-CV, IBRD Loan 9298-CV, Canada Trust Fund TF0B6576 and the Global Infrastructure Facility Trust Fund TF06853.
  - (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
  - (c) Goods, works, and services financed have been procured in accordance with relevant financing agreements, including specific provisions of the [World Bank Procurement Framework](#).
  - (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or 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.
  - (e) The Designated Account is managed taking into consideration the provisions of the financing agreement; and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;
  - (f) The project accounts were prepared on the basis of systematic application of the norms of the Accounting Normalization and Financial Reporting System (SNCRF) and provide a faithful image of the Project's financial situation at the end of each fiscal year as well as of the resources received and expenses made during the fiscal year ended on these dates;
  - (g) The project's fixed assets are real and correctly assessed and the project's property right or the beneficiaries over these assets are established according to the financing agreement;





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- (h) The ineligible expenditures in the request for Designated Account replenishment identified during the audit were reimbursed to the Designated Account. These expenditures will be subject of a separate note in the audit report;

### *Project financial statements*

- 7. The auditor should verify that the financial statements have been prepared in accordance with [International Public Sector Accounting Standards](#). The financial statements of each Project should include:
  - (a) A statement of financial position;
  - (b) A statement of resources (funds received) and the uses (expenditures incurred during the fiscal year);
  - (c) A statement of financial performance;
  - (d) A cash flow statement;
  - (e) A comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements;
  - (f) A statement of Designated Account transactions;
  - (g) Notes, comprising a summary of significant accounting policies and other explanatory notes;
  - (h) The list of fixed assets acquired or purchased by the Project funds;

The auditor shall present in the annex of the financial statements a reconciliation of the funds received by the Project coming from the Bank and other source of funds on one hand, and the funds disbursed by the Bank and other source of funds, on other hand.

### *Review of Statements of Expenditure and Interim Unaudited Financial Statements*

- 8. The auditor is required to audit all SOE/IFS submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s). Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. The auditor should report any ineligible expenditures identified as having been included in withdrawal applications and reimbursed.

### *Review of designated accounts*

- 9. During the audit of the project financial statements, the auditor is required to review the activities of the project's designated account(s). Activities to be examined will include deposits received, payments made, interest earned, and reconciliation of period-end balances.



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### Audit Reports

#### *Audit opinion*

10. The auditor will issue an audit opinion on the financial statements. The auditor's opinion shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for that opinion. The audit report shall be prepared in accordance with International Standard on Auditing 700. A modified audit opinion shall be rendered in the financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with International Standard on Auditing 705.
11. The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the financial statements, seeks to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report. The paragraphs will refer to either a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users' understanding of the financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. This form of opinion will be presented in accordance with International Standard on Auditing 706.
12. The auditor will also give an opinion on: (i) the mobilization and use of funds by the project; (ii) the reality and the adequate recording of the constructions.

#### *Other audit reports*

13. In addition to the audit opinion, the auditor will also, either in the audit report or in the report to management:
  - (a) provide comments and observations on the accounting records, 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 recommendation for their improvement;
  - (c) report on instances of noncompliance with the terms of the financial agreement(s);
  - (d) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or claimed from the World Bank;
  - (e) communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project;
  - (f) comments on unimplemented recommendations from the previous letter of recommendations
  - (g) draw to the borrower's attention any other matters that the auditor considers pertinent; and



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- (h) responses from management, including implemented and proposed remedial actions.
14. The auditor's opinion on the financial statements and management letter should be received by the Bank no later than six months after the end of each fiscal year.

### **General**

15. The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit, including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.
16. The auditor is encouraged to meet and discuss audit-related matters, including input to the audit plan, with the World Bank project task team.
17. It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in [OP 10.00 Investment Project Financing](#), [Bank Policy: Program for Results Financing](#), and [OP 8.60 Development Policy Lending](#). The auditor should also be familiar with the [Disbursement Guidelines for Investment Project Financing](#) (February 2017), the [Loan Handbook for World Bank Borrowers](#) (February 2017), and the [World Bank's Procurement Framework](#) (July 2016).

### **The Auditor quality**

The consultant must be an independent Audit and Accounting Expertise Firm, doing the usual job of the accounts review, regularly registered in the Chartered Accountants Association recognized at the international level by IFAC or FIDEF, having a confirmed experience in financial audit of development projects and acceptable by the IDA.

The mission's key staff shall at least comprise:

- (1) 1 Certified Public Accountant partner responsible of the mission having at least 15 years' experience in financial audit and having good knowledge of the procedures of fiduciary management and audit of projects funded by the World Bank;
- (2) 1 Head of mission having at least a Degree level BAC+5 or more in auditing, accounting and possessing at least 10 years' experience in financial audit;
- (3) 2 Juniors having at least a Degree level BAC+5 or more in auditing, accounting and possessing at least 3 years' experience in financial audit;
- (4) 1 Procurement specialist possessing at least 5 years' experience in procurement.

### **Duration**



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It is expected that the volume of global intervention in terms of budget-time and resources (man-months) will be defined and justified in the auditor's submission. However, the candidates are requested to note that the average in Cabo Verde for similar audits do not generally exceed the 300 man/hour.

### **Auditor's Qualification**

The auditors shall have a vast experience in auditing and shall also have a great knowledge and a previous experience of the World Bank norms and of other donors concerning the audit of projects.

The working language is Portuguese and the reports shall be written as follows: two copies in English or French and one copy in Portuguese.

The auditor will submit the report to the Project Coordinator before June 10 of each fiscal year. This agent will send the audit report accompanied by the financial statements to the Bank including the letter of internal control.