



Regional Electricity Regulators Association of Southern Africa

Terms of Reference

Consulting Services for: *Provision of Consultancy Services for the Financial Audit of the entire Project of Regional Harmonization of Regulatory Frameworks and Tools for Improved Electricity Regulation in the SADC Region*

RFP No: *RERA-CONS-001-LCS*

Client: *Regional Electricity Regulators of Southern Africa*

Country: *Namibia*

Terms of Reference

1. BACKGROUND

1.1 The African Development Bank Group (the Bank) has been supporting the **Regional Electricity Regulators Association of Southern Africa (RERA)** in its development efforts since **20th January 2022**. A Grant of US\$1,000,000 was approved on 20th January 2022 to finance the **Regional Harmonization of Regulatory Frameworks and Tools for Improved Electricity Regulation in SADC Project**.

2. PROJECT OVERVIEW

The Southern Africa Development Community (SADC) is generously endowed with energy resources which, if fully harnessed, the region has the potential to achieve universal access to modern energy services. Those resources include huge hydro-power potential; proven fossil fuel reserves; renewable energy resources like solar, wind and including geothermal; amongst others. However, most SADC Member States have harnessed only a small fraction of their energy resources as exemplified by less than three percent of the total hydro-potential in the region which has been harnessed. Further, the low share of natural gas in the regional energy mix also belies the fact that Southern Africa has some of the largest deposits of gas in the world.

The Energy Sector in the SADC region still faces inadequate levels and coverage of physical infrastructure due to insufficient investment, inefficient and unreliable energy infrastructure services, inefficient use of energy services, non-cost reflective electricity tariffs, heavy and unsustainable reliance on biomass energy as traditional fuels (wood fuels, charcoal, animal waste etc.). This has resulted into low electricity access rates among member states, averaging at slightly above 50%.

The economic transformation of the SADC region will require adequate and functioning infrastructure, particularly for the energy sector, to propel the region towards frontloading industrialization within the context of the fourth Industrial revolution. This entails infrastructure development in support of regional integration towards interconnected, integrated, and quality, seamless infrastructure and networks, including cross-border infrastructure that facilitates an enhanced energy market. It is therefore worth noting that the Regional Indicative Strategic Development Plan (RISDP) has prioritized harmonization of policies, strategies and initiatives in support of cross-border infrastructure and services as well as the development of regional markets for energy.

In that regard, the SADC Secretariat through the Regional Energy Regulators Association of Southern Africa (RERA) has mobilized technical assistance from the African Development Bank (AfDB) to implement a project on the Regional Harmonization of Regulatory Frameworks and Tools for Improved Electricity Regulation in the SADC Region (the “Project”). This is a regional initiative designed to enhance the sustainability of the regional electricity sector through effective, uniform, and transparent regulatory frameworks that set out clear principles, rules, processes and standards for the SADC region. The main objective is to harmonise regulatory frameworks to facilitate electricity trading within SADC, a Regional Economic Community comprising 16 Member States. A combination of studies, capacity building and development of tools will be undertaken to realise these main objectives.

The Project comprises the following Components:

(i) **Component 1. Elaboration and Application of Regional Electricity Regulatory Principles (RERP) and Key Performance Indicators (RKPI) for RERA:**

This will involve technical assistance to RERA for the development of electricity regulatory principles and adoption of regulatory performance indicators from the African Development Bank’s flagship Electricity Regulatory Index for Africa (ERI), contextualisation of same by RERA member countries and application of the adopted indicators for monitoring uniform regulatory performance in the region by the Regional Electricity Regulators Association (RERA);

(ii) **Component 2. Expansion of Regional Utility Key Performance Indicators (RUKPI):**

This will involve technical assistance to RERA for the expansion performance areas and regional coverage of the current RERA Key Performance Indicators for monitoring utility performance across the region and support the collection and reporting on these indicators.

(iii) Component 3. Harmonised Comparison of Electricity Tariffs (HCET) of the SADC Member States and Development of a Cost Reflectivity Assessment Framework Tool (CRAFT) for the SADC Region:

This will involve technical assistance to RERA to undertake a comparative analysis of electricity tariffs and drivers of tariffs across the electricity value chain of the SADC region and developing a cost reflectivity assessment tool to track progress made by SADC Member States in migrating towards cost reflective electricity tariffs.

(iv) Component 4. Development of Energy Information and Database Management System (EIDBMS):

This will involve technical assistance to RERA to develop a centralised database management system that will provide a platform to collect, store and disseminate regulatory and other relevant energy information from SADC Member States.

RERA is to be responsible for the implementation of the project. The Project Implementing Unit was set up specifically for this project and is located within RERA Secretariat. RERA assigned a dedicated Project Manager/Coordinator, who coordinates a project technical working group (PTWG) that is composed of Member Regulator-nominated focal points, SADC Secretariat (Energy Division), and the Southern African Power Pool (SAPP) Coordination Centre (CC).

3. NEEDS ASSESSMENT

Notwithstanding the modest gains made in the region in the energy sector, numerous legal and regulatory obstacles constrain power sector investments and regional power trade within SADC Member States. There is a need for harmonized renewable energy regulations to facilitate implementation of renewable energy infrastructure projects and support the low-carbon initiatives in the region. The SADC countries face enormous challenges in harmonizing sector regulations across the region including a harmonized approach to tariffs (wheeling charges). The Project seeks to provide tools to harmonise regulatory frameworks to facilitate the smooth and timely completion, and utilisation/ operation of the key regional energy infrastructure. This will further enhance the enabling environment for increased regional electricity trade, which is critical to SADC, through SAPP.

4. INSTITUTIONAL DEVELOPMENT AND KNOWLEDGE BUILDING

The Project will substantially strengthen and enhance the technical capacity of RERA and its Member Regulators through the various studies, tools and guidelines that will be developed under the Project. The Project reports will also provide relevant knowledge, data and insight on critical issues in the sector with respect to economic regulation, including tariff analysis and models, and quality of service regulation in terms of utility performance measures.

5. OBJECTIVES OF THE PROJECT

The objective of the Project is to enhance the sustainability of the electricity sector of the SADC region through effective, uniform, and transparent regulatory frameworks that set out clear principles, rules, processes, and standards for sector stakeholders. A combination of studies and capacity building will be undertaken to realise this objective.

The Project aims to deliver technical assistance to promote the development and adoption of regional electricity regulatory principles, enhance capacity to monitor utility performance, conduct a cross-border analysis of electricity tariffs, and develop a centralized database management system in the SADC region. The Project seeks to provide tools for harmonizing regulatory frameworks to facilitate the smooth and timely completion, and utilization/operation of regional energy infrastructure. This will further enhance regional electricity/energy trade within SADC region.

6. OUTCOMES OF THE PROJECT

The Project will contribute to: (i) harmonized regulatory frameworks in SADC; (ii) enhanced utility performance monitoring frameworks; (iii) enhanced migration towards cost reflective tariffs and harmonized tariff frameworks; and (iv) improved and secured energy data collection, validation, storage and dissemination. The Project aims to ultimately enhance electricity trade among the SADC Member States.

7. OBJECTIVE OF THE REVIEW ENGAGEMENT

The practitioner's objectives in a review of financial statements under ISRE 2400 are to:

7.1 Obtain limited assurance primarily by performing inquiry and analytical procedures about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to the his/her, attention that causes the him/her practitioner to believe that the financial statements are not prepared in all material respects in accordance with an applicable financial reporting framework; and

7.2 Form a conclusion, report on the financial statements as a whole, and communicate as required by this ISRE (negative opinion)

7.3 Obtain limited assurance whether the project/program books of accounts provide the basis for preparation of the PFSs by the project/program implementing unit and are established to reflect the financial transactions in respect of the project/program. The PIU maintains adequate internal controls and supporting documentation for transactions.

8. RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

8.1 The responsibility for the preparation of PFSs lies with the Project/Program Management. The Project/program Management is also responsible for:

8.2 The selection and application of accounting policies. Project/program Management will prepare the PFSs in accordance with applicable accounting standards, either the International Public Sector Accounting Standards (IPSASs), International Financial Reporting Standards (IFRs), or National Accounting Standards.

8.3 Implementing accounting, administrative and financial procedures documented in the applicable procedure manuals.

8.4 The practitioner is responsible for expressing conclusions on the objectives of the review engagement as stated in paragraph 8.1 above.

9. SCOPE OF THE REVIEW ENGAGEMENT

The review will be carried out in accordance with the International Standards on Review Engagement (ISRE 2400) on the following Subject Matters:

- (a) All funds, including counterpart funds and other external funds (in case of co-financing) have been used in accordance with the conditions of the Grant agreement(s), with due attention to economy and efficiency, and only for the purposes for which the funds were provided.
- (b) Goods, works and services financed have been procured in accordance with the financing agreement; and have been properly accounted for ;

- (c) Appropriate supporting documents, records and books of accounts relating to all project/program activities have been kept;
- (d) Disbursements of funds have been made based on the Disbursement Handbook and in accordance with the conditions of the Grant or Credit agreements;
- (e) Special accounts have been maintained in accordance with the provisions of the Grant agreement and in accordance with the Bank's disbursement rules and procedures;
- (f) Payments made using project/program funds relate to project/program activities as stated in the project/program progress reports;
- (g) The financial statements have been prepared by project/program management in accordance with the applicable reporting framework;
- (h) There are no ineligible expenditures identified during the review.

10. FINANCIAL STATEMENTS

10.1 The practitioner shall verify that the PFSs have been prepared in accordance with agreed accounting standards (refer to paragraph III above) and give a true and fair view of the financial position of the project at the relevant date.

10.2 For financial reporting purposes, the practitioner shall verify and ensure the PFSs have been presented using the Borrower's functional currency. Where functional currency is not used for the purpose of PFSs presentation, full exchange translation is required. The auditor shall obtain from management the rationale and justification for use of a presentation currency different from the functional currency.

10.3 The project/program financial statements prepared by project/program management shall include:

- (i) Statement of Sources¹ (funds received from the Bank, counterpart funding, and, where applicable, co-financiers' funding) and Uses of Funds (expenditures incurred for both the current year and accumulated to-date) showing Bank's funding separately, those of counterparty and co-financiers if applicable, and cash balances;
- (ii) Notes to the Financial Statements:
 - a) Describing the applicable accounting policies;
 - b) Giving a breakdown of significant balances;
 - c) Presenting a reconciliation between the amount shown as "received from the Bank" and that shown as having been disbursed by the Bank.

11. SPECIAL ACCOUNTS AND OTHER PROJECT/PROGRAM BANKS ACCOUNTS

11.1 The practitioner shall review documents relating to the use of the Special Account (SA) to ensure that:

- a) All Statements Of Expenditures (SOE) submitted in support of SA replenishment are consistent with the supporting documentation;
- b) The internal control governing the use for SA is adequate and could be relied upon to justify continuous requests for replenishment;
- c) For each review engagement, based on the outstanding balance on the special account (SA) received from the Bank, the borrower will avail to the practitioner, the corresponding SOE with the supporting documents justifying use of the outstanding balance, for the audit in question.
- d) The practitioner is required to review specific SOE and the related supporting documents and report on its accuracy and objectivity in the Management Letter. Any discrepancy – if material - will be

¹ Any revenue generated by the Project/program e.g. sale of bid documents, disposal of project/program assets, bank credit interests earned in the special account and fees earned should be accounted for and disclosed.

reported likewise in the Management Letter. The SOE, including its supporting documents, will be attached as an annex to the financial statements in the practitioner's report.

- e) Any inter-account funds transfers' between the SA and other project bank accounts on one hand, and between all project bank accounts (including SA) and other non-project accounts during the financial year are justified.
 - f) For last audit engagement, determine whether all SA liquidation procedures have been complied with including submission of all SOEs covering use of SA resources, transfer of unutilized SA balances and closure of SA.
- 11.2 The practitioner shall :
- a) Agreed cash contributions were budgeted in the central government annual budget and released on time to the project/program counterpart account as planned.
 - b) Ensure all counterpart funds have been used for the purpose of the project/program
 - c) Adequate basis exists for valuation of In-kind counterpart contribution for inclusion into the financial statements.

12. GENERAL INFORMATION

- 12.1 The review report should be received by the Executing Agency no later than on the date agreed in the relevant review contract, to enable submission of the review report to the Bank within the timelines stipulated in the legal agreement.
- 12.2 The practitioner should be given access to all legal documents, correspondence and any other information associated with the project/program as deemed necessary by them. Confirmation of amounts disbursed and outstanding at the Bank should also be obtained. The project/program task manager at the Bank can assist in obtaining these confirmations.
- 12.3 The practitioners should be given access to all technical documents and reports relating to project/program implementation.
- 12.4 It is recommended that the practitioners become familiar with the following documents that may have been prepared by the Bank:
- (a) General Conditions Applicable to Grant Agreements;
 - (b) Grant Agreement;
 - (c) Project/program Appraisal Report;
 - (d) Financial Management Manual
 - (e) SOEs used to request/justify the replenishment of the special accounts
 - (f) Disbursement Handbook;
 - (g) Procurement rules and procedures for works, goods and services;
 - (h) Technical studies made for project/program implementation;
 - (i) Technical progress reports.

13. PRACTITIONER EXPERIENCE AND QUALIFICATIONS

- 13.1 The practitioner should be registered and have a license from a national or regional professional Accountancy Body.
- 13.2 The Consulting firm (Consultant) shall have been in existence for at least 10 years as a firm.
- 13.3 Specific Experience: The Consulting firm (Consultant)/JV shall possess demonstrable combined specific experience in undertaking at least four (4) similar consultancies in the last five (5) years; The similarity test- Each assignment shall be subjected to the similarity test using the checklist below;
- a) Identical/close scope of previous work/experiences in financial audit
 - b) Geographical scope, i.e., assignment conducted in SADC or Africa
 - c) Funder- Multilateral development partners such as the AfDB, World Bank etc.
 - d) Duration of previous experiences/assignment- at least 2 months
 - e) Timing of the assignment- Conducted in the last 05 years, i.e, 2020
 - f)
- 13.4 Regional experience: The firm shall have knowledge and experience, preferably in Southern Africa and Africa at large

13.5 Technical and Managerial Capabilities of the firm. The firm should demonstrate the ability to mobilise resources and expertise to execute such an assignment.

13.6 The review team will comprise at least:

Sn	Designation	Qualifications	Level of Effort (Man Days)
1	Team Leader	<ul style="list-style-type: none"> • A Master's degree in Accounting and Finance, Economics, Commerce, Business Administration, Management or equivalent • Must possess a full professional qualification such as (ACCA, CA, CPA, Expert Comptable) • Registration/Certification with the relevant national accounting/auditing body. • A minimum of 10 years post-qualification experience, including auditing of multilateral donor-funded projects/programs and appreciation of project/program realization reports; • Experience in auditing of at least three (3) donor-funded projects. Experience with AfDB-funded projects shall be an added advantage. 	10
2	Audit Manager (1)	<ul style="list-style-type: none"> • A Master's degree in Accounting and Finance, Economics, Commerce, Business Administration, Management or equivalent) • Must possess a full professional qualification such as (ACCA, CA, CPA, Expert Comptable) • Registration/Certification with the relevant national accounting/auditing body. • A minimum of 7 years post-qualification experience, including auditing of multilateral donor-funded projects/programs and appreciation of project/program realization reports; • Experience in auditing of at least two (2) donor-funded projects. Experience with AfDB-funded projects shall be an added advantage. 	20
3	Assistant Auditor (1)	<ul style="list-style-type: none"> • A degree in Accounting and Finance, Economics, Commerce, Business Administration, Management, Procurement or equivalent • Registration/Certification with the relevant national accounting/auditing body. • A minimum of 5 (years post-qualification experience, including auditing of multilateral donor-funded projects/programs and appreciation of project/program realization reports; • Experience in auditing of at least one (1) donor-funded projects. Experience with AfDB-funded projects shall be an added advantage. 	20

14. DELIVERABLES

The following reports with specific deliverables for the purpose of progress payments are expected from the Consultant:

14.1 Inception Report

The inception report shall provide a detailed work plan describing how the Consultant shall achieve project objectives. It shall include, but not be limited to the following:

- (a) An overview of the project's key features

- (b) A description of the project's objectives and the consultant's understanding of the ToR (objectives, scope of works and tasks)
- (c) Clarification on the scope of the assignment, methodology, work plan and key staff to be used for carrying out the assignment
- (d) Preliminary collection of data and/or information and interview with key stakeholders
- (e) A revised and practicable assignment delivery program after actual context analysis.
- (f) Audit Sample/Size
- (g) List of Documents required
- (h) List of interviewees/stakeholders

14.2 Draft Review Report

The draft review report shall be prepared in accordance with ISRE 2400, and should comprise:

- (i) A Draft Report on the Financial Statements and**
- (ii) A Draft Management Letter.**

The draft report on the financial statements will include:

- (a) a professional opinion on the financial statements and supporting schedules as regards their true and fair view; and
- (b) a complete set of the project/program's financial statements, including explanatory notes as appropriate.
- (c) indicating whether the Cash Flow Statement and supporting schedules present fairly the cash receipts and disbursements of the funds and they were utilized for the purpose for which they were intended for

The Draft Management Letter will:

- i. Identify specific deficiencies and areas of weakness in systems and controls
- ii. Report on the appropriate justification of the special accounts and for the specific case of the last review engagement, indicate the status of and actions taken by management to clear the outstanding balances of the special accounts in the Bank's books and the balances in the special accounts themselves, and
- iii. Identify deficiencies and weaknesses issued from the review of project/program technical progress reports (relating to pace of implementation, cost, adherence to technical specifications, and similar) and make recommendations for improvement.
- iv. Include reactions/comments from management on the recommendations and weaknesses noted by the practitioner. Expenditures that are considered either ineligible or paid out of the special account (s) or which have been claimed from the Bank will be mentioned in the Management Letter based on their materiality.
- v. Any other matters that the auditors consider pertinent to be brought to the attention of the Client.

14.3 Final Review Report

The final review report containing the A Report on the Financial Statements and the Management Letter shall be prepared after thorough incorporation of comments by the Employer and Funder, and upon acceptance by the Bank.

15. REVIEW OF THE PRACTITIONER'S REPORT

- 15.1 The Bank shall follow internal review processes and undertake a comprehensive review of the practitioner's and provide feedback to the Borrower with appropriate recommendations, including acceptability or otherwise of the report;
- 15.2 In the case of the review carried out by a private practitioner, payment of the practitioner's fees shall be upon review and clearance of the report by the Bank;

15.3 The Bank reserves the right to request and review the practitioner’s working papers and any other information related to the work done by the practitioner;

16. REPORTING AND PAYMENT TERMS

All reports and communication related to the assignment shall be in the English language and shall be submitted in line with the time frameworks prescribed in below:

Item	Task	Deliverables	Duration (Calendar days)	Renumeration
(a)	Inception report	An inception report containing, among others, an understanding of the ToR (objectives, scope of works and tasks); methodology, work plan, and key staff; Preliminary collection of data and/or information and interview with key stakeholders; Audit Sample/Size; and a List of Documents.	05	15% of the contract price
(b)	Draft Review Report	A comprehensive Report on the Financial Statements and A Management Letter	20	45% of the contract price
(c)	Final Report	A comprehensive Report on the Financial Statements and A Management Letter, incorporating the employer’s comments and acceptable to the Bank.	05	40% of the contract price

17. PERIOD OF REVIEW AND TIMEFRAME FOR EXECUTION OF THE ASSIGNMENT

The consultant is expected to cover the period commencing project effectiveness, i.e from **20th January 2022** until the date of commencement of this assignment. This assignment is expected not to exceed a period of thirty (30) calendar days.

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