



PUBLIC

VPC/FMP

Original: Spanish

Audited Financial Reports and External Audit Management Handbook

May 2018

In accordance with the Access to Information Policy, this document is subject to public disclosure.

TABLE OF CONTENTS

I.	OBJECTIVE AND SCOPE	1
II.	AUDITED FINANCIAL REPORTS (AFR) OF PROJECTS	1
	A. Types of Audited Financial Reports	1
	B. Acceptable Accounting and Auditing Standards	2
	C. Frequency, Cut-off Date and Deadline for Submission	2
	D. Dissemination and Access to Information	3
	E. International Organizations and Technical Cooperation Agencies (UNDP and Others)	3
III.	EXTERNAL AUDIT MANAGEMENT OF PROJECTS	4
	A. Eligible Independent Audit Firms (IAFs)	4
	B. Selection, Hiring and Financing of Audit Services	4
	C. ToR of the Audited Financial Reports	5
IV.	AUDIT RESPONSIBILITY	6
	A. Borrower's and/or EA Responsibility	6
	B. External Auditor's Responsibility	7
	C. Bank's Responsibility	7
	APPENDIX I –AUDITED FINANCIAL REPORTS FOR IDB FINANCED OPERATIONS	11
	APPENDIX II – CONSULTANTS' QUALIFICATIONS-BASED SELECTION (CQS)	17
	APPENDIX III: LEAST COST SELECTION (LCS)	18
	APPENDIX IV – QUALITY- AND COST-BASED SELECTION (QCBS)	19

ACRONYMS AND ABBREVIATIONS

AFS	Audited Financial Statement
AFR	Audited Financial Report
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Certified Public Accountant
EA	Executing Agency
FMP	Financial Management and Procurement
FMS	Financial Management Specialist
IAS	International Accounting Standards issued by IASB
IASB	International Accounting Standards Board
IDB	Inter-American Development Bank
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing (issued by IFAC)
ISAE	International Standard on Assurance Engagements
ISRS	International Standard on Related Services
ISSAI	International Standards of Supreme Audit Institutions
SAI	Supreme Audit Institution
ToR	Terms of Reference
VPC	Vicepresidency for Countries

PREFACE

The Audited Financial Reports and Management of External Audit Handbook (henceforth “the Handbook¹”) will take effect on May 1st 2017 and will be implemented progressively² until June 1st 2018, when its application will become mandatory.

¹ This document replaces the “Financial Reports and External Audi Handbook” dated July 2015.

² This Handbook is applicable to new contracts with independent audit firms from May 1st, 2017 onwards; for contracts carried out before this date, there will be an analysis on a case by case basis with the participation of the Borrower and/or Executing Agency.

I. OBJECTIVE AND SCOPE

1. This Handbook provides guidelines in relation to: i) Audited Financial Reports of IDB financed projects³, their content and other characteristics; ii) External Financial Audit Management; and ii) Responsibilities of the parties involved in the accountability process and external audit of projects.
2. The guidelines seek to ensure that the financial reports submitted by the Borrower and/or Executing Agency (EA) provide a structured representation of financial transactions, the balances associated with execution of operations, and the use of funds by financing source. Financial reports should be prepared in accordance with the standards established by the international bodies that govern accounting and financial reporting and the requirements of the Financial Management Guidelines for IDB financed projects (OP-273-6) (FM Guidelines), and audited by external auditors eligible to the Bank, in accordance with the standards established by the international bodies which govern external audits.

II. AUDITED FINANCIAL REPORTS (AFR) OF PROJECTS

3. In accordance with requirement No. 5 of the FM Guidelines, the Borrower and/or EA will:
 - a. maintain adequate and reliable financial management systems, retaining –for the periods established therein– supporting documentation for project activities, decisions and transactions to satisfy the conditions related to the eligibility of expenditures.
 - b. account for project activities, decisions and transactions in a timely manner, in accordance with internationally accepted principles, norms and good practices.
 - c. prepare and submit the contractually agreed financial reports to the Bank.

A. Types of Audited Financial Reports

4. Requirement N° 8 of the FM Guidelines provides for the acceptance of three types of audited financial reports. In this respect:
 - a. Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks also known as Audited Financial Statement (AFS), applicable in the vast majority of projects,
 - b. AFS of the Entity, where the Bank does not intervene in the audit management except for the quality control of the audit product as per the terms of this document
 - c. Others as the Reasonable Assurance applicable to complex projects or very particular cases where the type indicated in i) does not suffice.
5. The EA, together with the Bank, will determine the terms of reference (ToR) applicable to the pre-defined type of audit including the scope, frequency, format, cut-off date and deadline for submission to the EA.
6. When the Bank co-finances a project with other donor/financier, a consensus will be sought on **the content, deadline and frequency** of project financial statements such that they are compatible with the requirements of all involved parties.

³ In this document, the term "Project" is used to refer to any loan, technical cooperation or operation financed by the Bank.

B. Acceptable Accounting and Auditing Standards

7. The international accounting and financial reporting standards acceptable to the IDB are the following:
 - a. The IPSAS4, (International Public Sector Accounting Standards).
 - b. International Financial Reporting Standards (IFRS). These standards are known as IAS or IFRS.
 - c. IFRS interpretations by the International Financial Reporting Interpretations Committee (IFRIC).
 - d. SIC (Standards Interpretations Committee) interpretations.
8. Financial statements may be prepared in accordance with domestic accounting standards when these do not deviate substantially from the previously mentioned international standards, and the impact of such deviations are adequately explained and disclosed in the Notes to the financial statements.
9. The audit of the financial statements must be conducted in accordance with international standards on auditing such as the ISA (issued by the IFAC) and international standards for SAI, issued by ISSAI ⁵.
10. Reasonable assurance engagements are governed by the International Standard on Assurance Engagements, ISAE 3000.

C. Frequency, Cut-off Date and Deadline for Submission

11. The Bank requires that the audit of financial reports be performed annually, unless otherwise agreed under the following circumstances:
 - a. The period between the date of the first disbursement and the Borrower's fiscal year end is less than six months. The audit could be postponed until the close of the subsequent fiscal year end (i.e., a period of up to 18 months).
 - b. The period between the Borrower's fiscal year end (prior to date of the last disbursement) and the date of the last disbursement is less than six months. The fiscal year end audit could be postponed, and the final audit report could instead cover a reporting period of up to 18 months.
 - c. Project execution is relatively short (less than 24 months). The parties could agree to a single audit report encompassing the entire project period.
 - d. Separate audits are not required for projects under the Project Preparation Facility (PPF) when: (i) the sum of amounts disbursed will be recognized in the first reporting period for the PPF project; and (ii) the project is completed in less than two years from the date of the first PPF disbursement.

⁴ For those countries in which their government has adopted the IPSAS, it is expected that their project's financial statements be compliant with those standards. For matters not covered by the IPSAS, or for countries that had not adopted the IPSAS, the IAS, the IFRS and their respective interpretations will be used as a reference.

⁵ The Bank may accept domestic auditing standards if these do not deviate substantially from the ISA and/or ISSAI. For this matter, the Bank will review financial management analyses and/or studies conducted by the Bank or other entities in which the domestic standards were applied.

12. The **cut-off date** for the preparation of the AFR may be: i) the project's fiscal year end; ii) the date of last disbursement of the project's resources; or iii) another date agreed by the parties.
13. The standard **submission due date will not be more than 120 days** after the cut-off date agreed between the Borrower and/or EA and the Bank. However, a longer due date of up to 180 days may be agreed when using the country's financial management systems that i) have reporting and audit cycles of more than 120 days, but less than 180 days; and ii) satisfy the information needs of the Bank and other stakeholders.
14. The Borrower and/or EA may request a waiver of the requirement to submit the audited financial report, and such waiver will be granted by the FMS if it does not negatively impact accountability and compliance with the criteria established in the FM Guidelines, this Handbook and the Operations Administration manual such as the OA 420 and the OA 421.
15. For **Technical Cooperation** and **Non-Reimbursable Investment**, the Bank may grant a due date extension⁶ for the submission of AFR of up to 60 days per fiscal year in the event of extraordinary circumstances of an infrequent and/or unusual nature (for example: natural disasters).
16. For sovereign guaranteed loan operations⁷, the failure to submit the **AFR** on the agreed upon date could result in the suspension of disbursements (Refer to the [Disbursement Suspension Process](#)).

D. Dissemination and Access to Information

17. The Bank supports the principle of public disclosure of public financial information to promote transparency in the administration of public resources. As per [IDB's Access to Information Policy - Implementation Guidelines GN-1831-26](#), AFRs received by the Bank are classified as public documents. If the Borrower and/or EA indicates in writing that the AFR contains confidential information, the Borrower and/or EA will prepare a summarized version (based on the Bank's approval) for public disclosure.

E. International Organizations and Technical Cooperation Agencies (UNDP and Others)

18. Except when otherwise provided in agreements between the Bank and other International Organizations and/or Technical Cooperation Agencies, the Bank may accept the AFR for projects executed by such entities, as well as their independent auditors, when the Bank deems that the auditors offer the same assurance and reliability in complying with external audit requirements established in the FM Guidelines and this Handbook.
19. In case of noncompliance with these requirements, the Bank reserves the right to request at any time, at their own expense and if deemed necessary, the preparation and submission of the AFR from the International Organization and/or Technical Cooperation Agency in compliance with the Bank's requirements.

⁶ See OA 421, Operations Administration Manual.

⁷ This includes operations not labeled as loans but managed as such, ex. the Grant Facility for Haiti or investment grants.

III. EXTERNAL AUDIT MANAGEMENT OF PROJECTS

A. Eligible Independent Audit Firms (IAFs)

20. **IAFs eligible to the Bank** are legally established professional entities in compliance with the Bank's nationality and country of origin criteria⁸ which offer a variety of services to the public including external audit of the private sector.
21. The eligibility⁹ process is made up of i) the registration and initial acceptance of IAFs, and ii) a continuous quality control following registration and acceptance.
22. The IAFs will be registered and accepted by the Bank in accordance with the following six criteria: a) independence; b) firm's experience in financial audits for the public sector and multilateral banks; c) professional experience of the audit staff; d) quality control system; e) structure, policies and procedures and the firm's international representation; and f) financial solvency.
23. Compliance with the established criteria will allow the IAF to be included in the list of eligible auditors to provide audit services for Bank's financed projects.
24. **The Bank's quality control** is continuous and covers a broader and more comprehensive scope every three, four, or five years, as deemed necessary.
25. **On an annual basis**, quality control will entail a quick review of the technical quality of the AFS¹⁰ to validate its compliance with ISA and the respective ToR. The results of this quick review could determine the need for a thorough review regarding a specific aspect of the audited report and/or a work paper review with a defined scope based on the findings identified. Also, the annual quality control allows for the validation of the eligibility list.
26. **On a periodic basis** (every three, four or five years), the eligible IAFs will be subject to a comprehensive assessment of its institutional structure and its performance through, among others, the review of a sample of work papers of their most recent audit work.

B. Selection, Hiring and Financing of Audit Services

27. The standard method is the **Consultants' Qualifications-Based Selection (CQS)**, refer to Appendix II; this method is usually applicable to the audits of financial statements prepared in accordance with special purpose frameworks (AFS).

⁸ Criteria for determining the nationality and country of origin of the services.

(A) Nationality: A firm has the nationality of a member country if it meets the following two requirements:

i. It is legally constituted or incorporated under the laws of a member country of the Bank; and

ii. More than fifty percent (50%) of the firm's capital is owned by individuals or firms from Bank member countries.

(B) Origin of the Services: The country of origin of the services in question is the country of the individual or firm that provides the services, in accordance with the above-mentioned nationality criteria. See GN-2350-9 and GN-2375 for more information.

⁹ The eligibility process of this Handbook was initially designed for IAF. The Bank will issue separate procedures for SAI and individual public accountants. The services of individual public accountants will mostly be used for operations that do not require financial audit services such as technical cooperation.

¹⁰ The review of other types of reports such as assurance engagement will also be part of this annual process with the help of specific tools.

28. For projects of high complexity and/or those in which a reasonable assurance or other additional service is required, the **Quality-and Cost-Based Selection (QCBS)** method will be used to evaluate the quality of the IAFs' proposals. Refer to Appendix III.
29. The **Direct Selection** of auditors may only be appropriate if there is a clear advantage over the competitive process. The rationale for this selection method will be examined based on the nature and complexity of the project, and the Bank's mandate to ensure economy, efficiency, competence, transparency, and due diligence. The Bank will consider direct selection appropriate when:
 - a. The project or entity subject to audit requires specific technical skills.
 - b. The current auditor of the project's executing unit is an auditor that is eligible to the Bank.
 - c. The entity has an auditor for another multilateral bank-financed operation, and the auditor is eligible to the Bank.
 - d. The additional audit work is negligible; therefore, a new competitive process is not justified.
 - e. The project includes a Loan Contract and a Technical Cooperation Agreement. The Bank may agree to use the same eligible auditor and request the submission of a single audit report for both operations.
30. The Bank could select and hire external auditors under the following, duly justified, circumstances: (i) a cost-benefit analysis shows a clear advantage for the Bank's hiring¹¹, (ii) there is limited access to external audit services in the country; and (iii) there are special circumstances that merit the Bank's hiring. The details of the selection and hiring of audit services will be previously discussed with the Borrower and/or EU. The audit will be conducted in accordance with the previously agreed ToR.
31. The EA will hire or ratify the hiring of auditors for each fiscal year or multiannual period sufficiently in advance¹² i.e., before the end of the reporting period to allow for a timely submission of its products. When using multiannual period contracts, it is suggested to review the country's legal framework for any aspects that may impede or restrict the use of this hiring method.
32. The audit services' contracts will include an early termination clause for unsatisfactory performance or non-compliance with the eligibility requirements mentioned in this document.
33. Audits costs may be financed with project funds in accordance with one of the following options: i) Bank financing ii) funds from counterparts; iii) a blend of the previous two options; and iv) resources other than the project funds. If the project is co-financed by other agencies, the cost of the audit could be shared.

C. ToR of the Audited Financial Reports

¹¹ Cost-benefit means that the Bank's decision will be based on: (i) the existence of institutional capacity issues that cannot be overcome in time to contract the auditors; (ii) a direct supervision that the Bank will perform on the work of the auditor; (iii) economies of scale, such as for MIF and technical cooperation operations, etc. iv) previously known institutional conditions– from the design of the project as well as key and unforeseen changes to the relevant national legislation.

¹² In most cases, four months before the fiscal year end would be considered as sufficient time to finalize the selection and hiring process.

34. **The audit of financial statements prepared in accordance with special purpose framework**¹³ also known as **AFS** validates the expenditure management cycle which includes verifying that expenditures had been generated from a planning and budgeting exercise (relevance of expenditure); that there was a contracting process (regardless of the supervision modality: ex ante or ex post); and that the cycle concluded with the delivery/receipt of the related goods and/or products. The auditor should use a sampling methodology that will provide a reasonable level of assurance to issue his/her report and conclude on the project's execution in any given period.
35. The **scope** includes all sources accounted for in the respective budgets (Banks financing, local counterpart resources, co-financing or other sources).
36. **Reasonable Assurance** is a service in which the auditor expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against the applied criteria. The auditor's conclusion is expressed in positive form: "compliance in all material aspects with ...". See Glossary for more information.

IV. AUDIT RESPONSIBILITY

A. Borrower's and/or EA Responsibility

37. **Selection**¹⁴ and **Hiring of Auditors** as per the guidelines and standards described in this Handbook.
38. **Preparation and submission of the audit ToR** to the Bank for discussion and technical non-objection regarding the scope and application of the relevant international standards.
39. **Submission of the AFR to the Bank** and/or the submission of the unaudited financial statement (when required) in compliance with the Loan Contract or Technical Cooperation Agreement.
40. **Acceptance of the AFR** prior to its submission to the Bank. The EA must ensure that the audit report submitted to the Bank complies with the ToR requirements that are part of the audit contract.
41. Availability of the required funds for the **payment of external audit services**, including the final payment upon acceptance of the submission of the last deliverable.
42. **Access to Borrower and/or EA staff and records.** For the performance of the audit procedures, the Borrower and/or EA will allow access to its accounting, budget and financial records, files, asset verification, financial management systems and the staff involved, regarding all aspects that affect the project financed by the Bank.

¹³ This ToR does not apply to the Entity AFS. For Entity AFS, the Bank will take part in the quality control once the work and reports are issued.

¹⁴ This involves situations of rehiring or rotation of auditors

43. **Access by the Bank to the external auditor's work papers** or any other information requested by the Bank related to the audit. This authority or authorization will be stated in the relevant audit engagement contract.

B. External Auditor's Responsibility

44. Acknowledge, agree and carry out the external financial audit work of the project, in accordance with the content and scope established in the Loan Contract, ToR, the FM Guidelines and in this Handbook;
45. Provide accurate, complete and correct information to the Bank in its registration process as well as accept the document "*Terms and Conditions Clarification*";
46. Communicate any changes to the information provided in the registration process in a timely manner (as soon as it happens) to the Bank's country office;
47. Plan the work so it complies with the agreed ToR, documenting in their work papers the evidence of the application of audit procedures, as well as conclusions and recommendations;
48. Perform the work assuming full responsibility, without subcontracting any service or activity unless the Bank and EA grant their non-objection;
49. Hire subject matter experts when required by the ToR, assuming responsibility for their technical opinion;
50. Ensure the technical quality of audit reports complies with the ISA, ISSAI or equivalent local standards;
51. Cooperate on continuous quality control deemed appropriate by the Bank;
52. Communicate the progress of remedial actions required by the Bank and resulting from quality control findings.

C. Bank's Responsibility

53. Formulating and submitting of the list of **Eligible Auditors** to provide audit services in the country in accordance with the results of the eligibility process described in this Handbook.
54. **Communication of the quality control process' results to the IAF and EA** to promote improvement in the delivery of services by the firm and/or EA.
55. **Non-objection of the ToR** submitted by the Borrower and/or EA before initiating the selection process for audit services.
56. Suspension of disbursements due to non-submission of the AFR.
57. When the Bank is responsible for contracting the audit services, it will apply controls deemed necessary to **verify compliance with the ToR** and quality standards, notwithstanding the Borrower and/or EA's request for service delivery. The Bank reserves the right not to accept work it considers poor, based on the applicable standards and the Bank's requirements, and to request additional information or audits. In such cases, the ToR will reflect this possibility, indicating that the additional costs will be borne by the auditor.

58. **Acceptance** of the AFR, per the quality standards established in this Handbook, and published on its website.
59. **Confidentiality in the use of** information provided by the IAF as part of the eligibility process.

GLOSSARY

External Auditor refers to audits conducted by auditors (individuals, audit firms or Supreme Audit Institutions), who are not internal (i.e., employees) to the entity or project being audited and, therefore, should be independent of the project or entity subject to audit.

Audit of Financial Statements (Governed by ISA 100 to 800). Most common type of external audit services required, applicable to all types of Bank projects. This work will generate an AFR comprising an auditor's report (based on ISA 800) with an opinion expressing reasonable assurance that the project's financial statements (Statement of Cash Received and Disbursements, Statement of Cumulative Investments) and the accompanying notes, give a fair presentation, based on the accounting standards acceptable to the Bank as explained below. It will also include management's representation letter on internal controls and the auditor's report on internal controls.

Reasonable Assurance (Governed by the International Standard on Assurance Engagement, ISAE 3000). This type of work is used in those instances when audit services are not contracted. It is generally used to obtain assurance about an expected behavior. For example, the performance of conditional transfers, global credit, or housing subsidies, among others; the appropriateness and effectiveness of the internal control system; compliance with the loan contract's financial clauses, etc. Thus, enabling the practitioner to issue a professional conclusion despite using parameters other than those of a financial statement audit.

Independent Audit Firms. The IAF is a firm consisting of professionals who hold a public accountant or equivalent degree, legally authorized to practice this profession in an IDB member country. These firms conduct audits in accordance with the ISA¹⁵, or equivalent local standards, with the required professional level of quality, and are generally registered with the relevant local regulatory agencies. These firms provide independent services to the public independently of, and not subordinated to, the audited entity. Their work consists primarily in reviewing financial statements and issuing a report as to whether the information included in such financial statements provide a fair presentation.

International Public Sector Accounting Standards (IPSAS). The IPSAS are issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants. The IPSASB recognizes the significant advantages of consistent and comparable financial reporting from one jurisdiction to the next and regards the IPSAS as a key player in bringing about these advantages.

The IPSAS are issued for financial reporting under two accounting bases: cash (received) and accrual (incurred). The accrual basis IPSAS are based on the IFRS issued by the International Accounting Standards Board (IASB) when the IFRS requirements are applicable to the public sector. The IPSAS also address audits of special purpose financial reporting not covered by the IFRS.

The IPSASB recognizes the right of public administrations and national rule-making authorities to establish accounting standards and guidelines for financial reporting within their jurisdiction. However, the IPSASB encourages adoption of the IPSAS and harmonization of national requirements with the IPSAS. Financial statements will be deemed to comply with the IPSAS

¹⁵ Issued by the International Federation of Accountants (IFC).

only if they meet all the requirements of each applicable standard.

International Standards on Auditing (ISA). The ISA, developed for the private sector, establish principles, practices and basic procedures that are relevant to all financial audits and other related work.

International Standards on Auditing for the SAI (ISSAI). The standards issued by the INTOSAI for the public sector are primarily based in the ISA and, in addition, adopt a general approach to public sector accountability. The scope is broader than issuing reports on financial statements and establishing the frequency for such reports.

APPENDIX I –AUDITED FINANCIAL REPORTS FOR IDB FINANCED OPERATIONS

1. A “**Statement of Cash Received and Disbursements**” recognizing i) the funds received from the Bank, counterpart, and other financing sources; ii) the capital outlays for execution, iii) the provision of payments made and outstanding to the IDB at fiscal year-end; and iv) cash balances for which the Borrower and/or EA is accountable for. In addition, if the contract provides for in-kind counterpart contributions, the statements will reflect such contributions. If the fair value of the in-kind contributions cannot be determined, relevant disclosures will be made in the notes to the financial statement.
2. A **Statement of Cumulative Investments** disclosing for each project component and source of financing, the opening balance of funds invested in the project at the start of each reporting period, the movements during such period and the closing balance¹⁶.
3. **Explanatory notes** disclosing the accounting policies used and other relevant information for the intended users of the financial report. These notes must be consistent with and include cross-references to the report.
4. **Other reports or transaction details** of a financial nature which will vary based on the type of project and will be agreed by the Executing Agency and the Bank during the project design phase¹⁷.

¹⁶ For purposes of this Handbook, the concept of investments generally includes the accounts used to record the use of funds. Consequently, in accounting terms, it could refer to work in progress or completed, acquired assets, and other expenses not necessarily represented as assets or tangible goods. For example: consultant training expenses, executing agency operating expenses, etc.

¹⁷ For example, report on the preparation and submission of disbursement requests, and on procurements for such investments; evaluation report on the system of internal controls; report on the content of the financial plan; report on compliance with the operational guide, the contract or financing agreement. It is relevant to clarify that these reports are not result of applying the TORs according to IAS 800 referred in these Guidelines.

FINANCIAL REPORT TEMPLATE

**NAME OF EXECUTING AGENCY
PROGRAM**

STATEMENT OF CASH RECEIVED AND DISBURSEMENTS [1]

(Expressed in... US dollars)

Period ending in...

(Period-end date)

	<u>IDB</u>	<u>LOCAL</u>	<u>OTHER</u>	<u>TOTAL</u>
CASH RECEIVED				
Beginning balance				
Activity during the period				
▪ Disbursements (advances, reimbursements, direct payments and reimbursements guaranteed by letter of credit)				
▪ Interest received				
▪ Other (specify)				
Total Cash Received				
DISBURSEMENTS				
Beginning balance				
Activity during the period				
▪ Refunds				
▪ Payments for goods and services				
▪ Other (specify)				
Total Cash Disbursements				
AVAILABLE CASH AS OF PERIOD-END				

The accompanying notes are an integral part of this statement

[\[1\] When using the accrual basis of accounting, make the necessary adjustments to the technical wording used in this statement.](#)

(Signature)

Name and Title

Date

NAME OF EXECUTING AGENCY
PROGRAM
STATEMENT OF CUMULATIVE INVESTMENTS

(Expressed in... US dollars)

ITEM	At end of year X0			Movement during year X1			At end of year X1		
	IDB	GOV.	STATE TOTAL	IDB	GOV.	STATE TOTAL	IDB	GOV.	STATE TOTAL
1. Engineering and Administration									
1.1 Planning and design									
1.2 Executing Office Supervision									
2. Works and Construction									
2.1 Construction									
2.2 Urbanization									
3. Equipment, Materials and Furniture									
3.1 Equipment									
3.2 Training materials									
3.3. Furniture									
3.4 Books and publications									
4. Recurring costs									
4.1 Teachers' salaries									
5. Unallocated									
5.1 Unforeseen costs									
5.2 Cost escalating									
6. Financing Costs									
6.1 Interests									
6.2 Credit fee									
6.3 Inspection and Supervision fee									
GRAND TOTAL									

The accompanying notes are an integral part of this statement

Note: the description of this statement must relate to the components and sub-components presented in annex A of the loan contract.

(Signature)

Name and Title

Date

NOTES TO THE FINANCIAL STATEMENTS OF THE PROGRAM

Without detriment to using or adapting to circumstances, and in conformity with the IPSAS or IAS/IFRS, this annex presents, for illustrative purposes, a list of items that are commonly disclosed in the notes (integral part of the financial statements). This list should not be considered all-inclusive, and not all items are applicable in every case:

1. Description of the Program

- Amended Contracts
- Inter-institutional agreements

2. Key Accounting Principles

- Cash Basis of Accounting

The financial statements have been prepared using the cash basis of accounting, recognizing revenue when the cash is received and recognizing expenses when the cash has been disbursed. This record-keeping modality differs from the IPSAS under which transactions should be recorded as they are incurred and not when they are paid. However, the IPSAS have been applied to these circumstances discussed in the chapter “Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting.”

- Accrual Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting under which transactions are recognized (or accrued) when they occur, in conformity with the provisions of IPSAS 1. Accordingly, transactions and other acts have been entered in the accounting records and recognized in the financial statements.

- Monetary Unit

The project accounting records may be prepared in the currency in which the Borrower and/or Executing Agency maintains its accounting records. However, for presentation purposes to the Bank, the financial statements will need to be converted to the financing currency, and an explanatory note added regarding the exchange rate agreed between the Bank and Borrower and/or Executing Agency and the conversion method used.

The exchange rate gain or loss that results from a difference in the exchange rate when the funds are received, versus when they are converted to local currency, to make payments for eligible expenses is accounted for as an exchange rate differential charged to: (i) Bank financing; (ii) local counterpart; or (iii) other sources.

3. Available cash balance

The available cash balance as of December 31st, 20XX is deposited in the Program’s bank accounts, and includes interest exchange rate gains.

	20X1 US\$	20X2 US\$
Bank Account N° ...		
Single Treasury Account (where applicable)		
Cash Account, Sub-Account or Other		
 Total		

During the year 20XX, interest gains amounted to US\$ _____, and currency exchange gains amounted to US\$ _____.

4. Advances pending justification

As of December 31st, 20XX, the amount pending justification to the IDB amounts to US\$ _____, and is included in the following disbursement requests pending to be processed or expenses incurred and not included in such requests:

An amount of US\$ _____ corresponds to ineligible program expenses.

(Describe the expenses, reasons for their ineligibility and whether they were excluded from the reported amounts in the Statement of Cash Received and Disbursements and Statement of Cumulative Investments)

5. Advances and justification¹

- Opening balance of advances
- Advances recorded and justified
- Advances received
- Closing balance of advances

When the funds are provided as “Advances”, disclose –between periods– the opening balance, the movement of advances received in the period, recorded advances, and period-end/closing balance. Back up data for the advances will include documents and dates. If necessary, include reconciliation between Bank (WLMS, Executive Summary) and project (bank balance) records, explaining any differences and the actions needed to adjust them.

Likewise, indicate compliance with the loan contract provisions for recording advances in keeping with the contractual currency, and the accounting basis used to record any foreign exchange differences, if applicable.

6. Local counterpart funds

The Government of _____ pledges to contribute the sum of US\$ _____ as a local counterpart. As of December 31st, 20XX, the Government has contributed the sum of US\$ _____ which equates to XX% of the total committed.

7. Prior-period adjustments

8. Procurement of goods and services

9. Investment categories

(Describe relevant items for each project component when the main statements are considered to require more detail)

- Activity costs
- Audit and evaluation costs
- Financial expenses/expenditures (Interest or Inspection and Supervision Fee (FIV))

¹ For those projects using revolving funds: In accordance with loan contract no. _____ a revolving fund equivalent to XX% of the loan amount had been established, amounting to US\$ _____. The balance as of December 31st, 20XX was: _____.

- Others

10. Disbursements

(This note may be presented together with the preceding one unless the reconciliation is different or cannot be identified with the analyses of the preceding note.)

11. Reconciliation between the “Statement of Cash Received and Disbursements” and the “Statement of Cumulative Investments”**12. Reconciliation by Investment Categories between the program’s records and IDB’s records****13. Contingencies**

Contingent liabilities or assets. These liabilities or assets depend on the outcome of future events with different levels of uncertainty that are not entirely under the control of the entity.

14. Subsequent events**15. Status of adjustments arising from the independent auditors’ non-standard opinion in the prior year or period.**

Indicate whether any such adjustments affect the current period and/or are reflected in the financial statements for the prior period (restatement) used in this report for comparison purposes

APPENDIX II – CONSULTANTS’ QUALIFICATIONS-BASED SELECTION (CQS)

Per this method, the Borrower and/or EA will draft the ToR and select the auditor with the best qualification and references. The selected auditor will present a technical and price proposal and will then be invited to negotiate the contract.

Steps to follow:

1. Borrower and/or EA: requests the Bank non-objection to the eligibility of the expense¹, to the ToRs and to the procurement process.
2. Bank: analyze and issue the non-objection.
3. EA:
 - a. From the list of eligible auditors² provided by the Bank, select the auditor with the best qualification and references for the engagement.
 - b. Request that the selected auditor submits a technical and price proposal.
 - c. Once the proposal is received from the auditor, negotiate the conditions of the contract and subsequently sign the contract³.
 - d. Send a copy of the signed contract to the Bank.
4. Bank: Registers the contract in the Bank’s system and confirm receipt of contract to the Borrower and/or EA.

¹ The request for non-objection shall include the period of the contract and the applicable fiscal years.

² If the list of eligible auditors provided by the Bank includes a number greater than 6 eligible IAFs, the list may be reduced by the EA to 6 or less, and this reduced list will be used for the firm’s selection as noted in 3.1.

³ If the proposal or contract negotiation is not satisfactory, the EA could select a different IAF from the list of eligible auditors.

APPENDIX III: LEAST COST SELECTION (LCS)

Per this method, the Borrower and/or EA will Prepare the ToR and proceed as follows

1. Borrower and/or EA request the Bank's non-objection to the eligibility of the expense¹, to the ToRs and to the procurement process.
2. Bank: analyze and issue the non-objection
3. EA:
 - a. Request that the IAFs in the list provided by the Bank, submit technical and price proposals.
 - b. Comply with the guidelines established in the document Least Cost Selection - Request for Proposals for External Audits, selection negotiation and hiring process.
 - c. After the lowest cost offer is selected, negotiate the conditions with the Auditor and sign the contract
 - d. Send a copy of the final evaluation and the signed contract to the Bank.
4. Bank: Registers the contract in the Bank's system and confirm receipt of contract to the Borrower and/or EA.

¹ The request for non-objection shall include the period of the contract and the applicable fiscal years.

APPENDIX IV – QUALITY- AND COST-BASED SELECTION (QCBS)

Per this method, the Borrower and/or EA will Prepare the ToR and proceed as follows

5. Borrower and/or EA request the Bank's non-objection to the eligibility of the expense², to the ToRs and to the procurement process.
6. Bank: analyze and issue the non-objection
7. EA:
 - a. Request that the IAFs in the list provided by the Bank, submit technical and price proposals.
 - b. Comply with the guidelines established in the document Request for Proposals for External Audits and the selection, negotiation and hiring process.
 - c. Send a copy of the final evaluation and the signed contract to the Bank.
8. Bank: Registers the contract in the Bank's system and confirm receipt of contract to the Borrower and/or EA.

² The request for non-objection shall include the period of the contract and the applicable fiscal years.