

**Loan 4511-LAO: Water Supply and Sanitation Improvement Sector Project
EXTERNAL FINANCIAL AUDITOR (CS-03)**

Terms of Reference

I. GENERAL BACKGROUND

1. The Asian Development Bank (ADB) aims to support the Lao People's Democratic Republic (Lao PDR) to improve access to safe water supply and sanitation facilities across the country through the implementation of the proposed Water Supply and Sanitation Improvement Sector Project (the Project). The Project will promote improved livability, and long-term sustainable and economic growth in the participating towns and will consist of three key outputs as listed below:

Output 1: Regulatory environment improved. The project will support the strengthening of the operating environment of the water supply and sanitation sector through:

- a. The development of a water supply and sanitation framework to improve asset planning, management and operations of water supply and sanitation infrastructure. The framework will provide guidance specifically to: (i) ensure that climate change is factored in the design of water supply and sanitation infrastructure; (ii) promote best-practice in asset planning and asset management; (iii) link infrastructure planning and design with operational aspects such as climate change and environmental sustainability, integrated catchment planning, water source management, drought management, and demand and leakage management; and (iv) promote the development of a more commercial water supply and sanitation sector through the adoption of proactive financial and performance management practices that focuses on budget planning, tariff setting and levels of service; and
- b. Development of technical standards that will guide the design of resilient sanitation services in urban areas. The standards will include key planning considerations and concepts for designing, constructing, and managing sanitation infrastructure and systems, including the use of nature-based solutions for wastewater treatment.

Output 2: Water supply and sanitation facilities and operations improved. The delivery of water supply and sanitation services in each participating province will be supported by: (i) the development of a water supply and sanitation investment plan for each participating PNP, where the projected demands and expected quality, level of service, proposed staging of delivery of the capital works and an overview of the resources that will be required to provide and maintain a resilient water supply and sanitation service in the short, medium, and long term will be documented; and (ii) the delivery of the capital works required to service the immediate demands of the population in the subproject towns. This would include the rehabilitation and upgrading of existing water supply schemes, improving nonrevenue water (NRW) reduction through the establishment of district metered areas, construction of new climate-resilient water supply schemes, providing new gender-sensitive sanitation facilities in priority public places and implementing digital technologies and systems to improve operational efficiencies, that may include automated control systems, water meters, asset management systems, early warning systems and geographical information systems. The project will continue with the free connection policy initiated under the earlier ADB-funded projects for households with a sanitation facility in place. For poor and low-income households that lack a sanitation facility, the project will cover the cost of providing an

improved sanitation facility (pour-flush latrines) to enable them to access the free water supply connection.

Output 3: Institutional capacity and governance improved. The technical capacity, institutional and governance arrangements of the DWS and PNPs will be strengthened through the delivery of training and capacity development programs. The project will support the PNPs as they develop corporate business plans in line with the government's regulations, and training will be provided to help improve corporate plan reporting and financial accountability, focusing on financial management, reporting and tariff reviews. Technical skills training through on-the-job training of both male and female PNP employees will also be included to: (i) improve their understanding how water supply and sanitation assets operate and how climate change can impact the O&M of these services; and (ii) promote asset management, NRW management, and proactive O&M planning. An information, education and communication awareness and outreach program will be developed to build the community's awareness and understanding of the new water supply and sanitation services. Support will also be provided to the DWS as they build their capacity as a technical and oversight body through the promotion of peer-to-peer knowledge exchange program with development partners, technical experts, other water utilities, and by developing processes that supports its ability to monitor and assess the effectiveness of corporate business plan implementation of each PNP to ensure operational sustainability of the sector.

The project will be managed by the project Management unit (PMU) under the Department of Water Supply (DWS) of the Ministry of Public Works and Transport (MPWT), who will be responsible for the day-to-day project management, supervision, and administration of the project. This will include reviewing project budget, overseeing financial management and accounting, procurement, supporting project preparation and conducting technical reviews, and ensuring social, gender and safeguard compliance. The PMU will be led by a project director who will be supported by deputy project directors.

2. The project will hire a qualified external private auditor (audit firm) to conduct the financial audits for the project. It includes auditing both project financial statements and entity financial statements. The audit firm will assign separate teams to carry out the audit process for the project and entity financial statements. The objective, audit scope and standard, deliverables and other specific arrangements for auditing the project financial statements is presented in Section A, while Section B presents similar information for the entity financial statements.