



LAO PEOPLE'S DEMOCRATIC REPUBLIC  
Peace Independence Democracy Unity and Prosperity

### **Terms of Reference**

Job Title: Project Financial Statements Audit  
Audit of the Financial Statements of the:

1. Enhancing Public Finance Management Through Information and Communication Technology and Skills (E-FITS) Project (P167534); and
2. Public Finance Management Reform Grant (P167661)

Contracting Authority: Project Implementation Unit, Department of Fiscal Policy and Law  
Ministry of Finance

Location: Ministry of Finance, Vientiane Capital

### **Introduction**

The Government of Lao PDR (GoL) is strengthening the management of its public finances through establishing guiding principles and policies for improved public finance management (PFM). As part of its objective to strengthen the management of its public finances, the Ministry of Finance (MoF) has prepared a comprehensive Public Finance Management Development Strategy to 2025 to improve policy consistency, efficiency, transparency and accountability in public expenditure and revenue management by strengthening institutional systems and capacity, as well as making progress towards meeting appropriate international financial management standards.

The Project Implementation Unit (PIU) was established in December 2018, under the oversight of the Public Finance Management Reform Secretariat housed at the MoF. The PIU is responsible for the implementation of two (2) project, namely, the E-FITS Project (P167534) and the PFM Reform Grant (P167661). The PIU is seeking the services of a qualified audit firm to conduct audits for the two projects under its implementation responsibility:

1. Enhancing Public Finance Management Through Information and Communication Technology and Skills (E-FITS) Project (P167534); and
2. Public Finance Management Reform Grant (P167661).

## **Brief Project Background**

The GoL has requested a US\$20 million credit from the World Bank for the implementation of the Enhancing Public Finance Management through ICT and Skills (E-FITS) Project (P167534) to contribute to the reliability, timeliness and transparency of financial reporting and to enhance public financial management skills.

The E-FITS Project (P167534) has three components with the total cost of US\$20:

Component 1: Setting the foundations for a core public financial management system	\$15.00 m
Component 2: Public Finance Management Skills Program and Change Management	\$4.00 m
Component 3: Project Implementation	\$1.00 m

Additionally, the GoL has received a EUR 1.5 million grant from the European Union to support in the implementation of MoF's Public Finance Management Development Strategy to 2025 by improving the legal framework and institutional capacity for budget preparation and execution, revenue management, and public procurement. Also, the grant funding from the European Union will support the set-up of the PIU. This support is through the Public Finance Management Reform Grant (P167661).

The implementation timeframe of the E-FITS Project is tentatively from April 2019 to April 2025, and implementation of the PFM Grant is estimated for February 2019 until March 2022.

## **Objective of the Projects Financial Statements**

The objective of the audit is to enable the auditor to express a professional opinion on the Projects' receipts and expenditure for each of the project accounting period specified below. The projects' books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the projects.

## **Responsibility for preparation of financial statements**

The responsibility for the preparation of financial statements including adequate disclosure is that of the project's management. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the projects. As part of the audit process, the auditor will request from management written confirmation concerning representations made in connection with the audit.

## Scope

The audit will be conducted in accordance with International Standards on Auditing (ISA). 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.

In complying with ISA, the auditor is expected to pay particular attention to the following matters:

- i. 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: The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements.
- ii. 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: Consideration of Laws and Regulations in an Audit of Financial Statements.
- iii. The auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- iv. The auditor should communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements as required by International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- v. In order 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: The Auditor's Procedures in Response to Assessed Risks.
- vi. In instances where 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: Audit Considerations Relating to an Entity Using a Service Organization.

- vii. 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: Written Representations.

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.
- (b) Goods, works and services financed have been procured in accordance with relevant general conditions, relevant financing agreements<sup>1</sup>, including specific provisions of the World Bank's Procurement Framework and Regulations<sup>2</sup> and GOL's Procurement Policies and Procedures.
- (c) All necessary original supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported via Summary Sheets (SSs) or Statements of Expenditure (SOEs). The auditor is expected to verify that respective SSs and SOEs issued during the auditing period were in agreement with the underlying books of account and examining transactions and verification of assets site where applicable.
- (d) Funds disbursed through Statements of Expenditures (SOEs) were utilized for the purpose defined in the financing agreement. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be reported by the auditor.
- (e) Designated Account and Project Account(s) have been maintained in accordance with the provisions of the relevant general conditions and relevant financing agreements and exclusively used for the project's intended purposes.
- (f) All periodic IFRs submitted to the World Bank were prepared accurately to reflect the underlying records and documents and provided consistent information with the annual financial statements that the year to date figures in the final quarter are

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<sup>1</sup> Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of "International standard on auditing 620 using the work of an auditor's expert": <http://www.ifac.org/system/files/downloads/a035-2010-iaasb-handbook-isa-620.pdf>

Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

<sup>2</sup> See <http://www.worldbank.org/en/projects-operations/products-and-services/brief/procurement-new-framework>

reconcilable with the annual statements. The auditor is also expected to verify that respective reports issued during the period were in agreement with the underlying books of account.

### **Project Financial Statements**

The auditor shall verify that the financial statements have been prepared in accordance with cash basis of accounting, except for cash advance. The Project Financial Statements should include:

- a) A statement of fund balance
- b) A statement of cash receipts and payments by expenditure category and by project component for both for the current period and accumulative to-date.
- c) Notes, comprising a summary of significant accounting policies and other explanatory notes. The explanatory notes should include reconciliation between the amounts shown as "received by the project from the World Bank" and that disbursed by the Bank and a summary of movements on the project's Designated Account.

The audit shall cover the Project Financial Statements for each of the following periods:

- i. *For the E-FITS Project (P167534):*
  - I. From the beginning of the project to 31 December 2019
  - II. From 1 January 2020 to 31 December 2020
  - III. From 1 January 2021 to 31 December 2021
  - IV. From 1 January 2022 to 31 December 2022
  - V. From 1 January 2023 to 31 December 2023
  - VI. From 1 January 2024 to 31 December 2024
  - VII. From 1 January 2025 to 30 September 2025 (inclusive of disbursement grace period)
- ii. *For the PFM Grant (P167661):*
  - I. From the beginning of the project to 31 December 2019
  - II. From 1 January 2020 to 31 December 2020
  - III. From 1 January 2021 to 31 December 2021
  - IV. From 1 January 2022 to 30 September 2022 (inclusive of disbursement grace period)

The final audit of the project financial statements and statement of expenditures shall cover a review of payments made during the grace period and disclose other unpaid commitments.

### **Review of Statements of Expenditure**

The auditor is required to review all SOEs submitted to the World Bank in support of requests for periodic replenishment of the Designated Accounts. Expenditures shall be examined for eligibility based on criteria defined in the financing agreements, the Project Appraisal Document and other relevant documents. Where ineligible expenditures are identified, they have to be reported regardless of the amount.

### **Review of Bank Accounts**

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

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year and the adequacy of internal controls for this type of disbursement mechanism.

### **Audit Reports**

The auditor will issue a separate audit opinion on the financial statements of the 2 projects for each period.

In addition to the audit opinion, the auditor will also prepare a separate management letter for each project in which the auditor will

- (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 non-compliance with the terms of the financing agreement(s);
- (d) quantify and report expenditures that are considered to be ineligible and either paid out of the bank account(s) or which have been claimed from the World Bank;
- (e) communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project; and
- (f) bring to the GOL's and the World Bank's attention any other matters that the auditors considers pertinent.
- (g) include management's comments in the final management letter.

If none of the above applies, and a management letter is therefore not prepared, the auditor will issue a letter stating that during the audit nothing has come to their attention that the auditor considers pertinent to be brought to the attention of the project management. The finalized and signed audited financial statements, the audit opinion, and management letter should be received by the Project in time (no later than 20th May of each year) to enable the project to submit to the World Bank no later than six months after the end of each of auditing period.

### **Public Disclosure**

In accordance with "The World Bank (the Bank) Policy on Access to Information"<sup>3</sup> dated July 1, 2015 for Bank-financed operations for which the invitation to negotiate is issued on or after July 1, 2010, the Bank requires that the borrower makes the audited financial statements publicly available in a timely fashion and manner acceptable to the Bank. In addition, following the Bank's formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.

Management letters, special audits (i.e. whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be a part of the definition of the audited financial statements for the purposes of disclosure.

Only in exceptional cases the World Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required disclosing an abridged version of them in a form acceptable to the Bank. Exceptions are approved by the World Bank management.

Therefore, the audit report shall not contain clauses that would restrict disclosure and distribution to the public.

### **Exit conference**

Upon completion of the field work, the auditor shall hold a closing or exit conference with senior project management. The exit conference will give the auditor an opportunity to obtain management comments on the accuracy and completeness of the auditor's facts or conclusions, including whether or not management concur with the audit findings. The auditor will document exit conference for inclusion in the audit work papers.

### **The Auditor Appointment**

The auditor will be appointed for the duration of the two projects 1. Enhancing Public Finance Management Through Information and Communication Technology and Skills (E-FITS) Project (P167534) and 2. Public Finance Management Reform Grant (P167661).

The contract will be signed for the whole project duration. The continued engagement of the auditor for each financial year; however, will be subject to satisfactory performance in conducting the audit of previous years' financial statements, including timely submission of the audit reports in accordance with the agreed timeframes. The cost for the audit will be financed by both projects and will be clearly specified in the contract.

### **Auditor qualification**

For a qualifying firm, the appointed firm will meet the following qualification requirements and experience levels:

#### For an Auditing firm

- Be a legal entity with business license granted by appropriate authority
- Be an entity acceptable to the World Bank as technically competent, independent and able to comply with International Standards on Auditing (ISA), and have adequate quality control to ensure compliance with ISA, International Standard of Quality Control (ISQC 1) and other requirements.
- Minimum 10 years experience in financial auditing in the public sector organizations.
- Experience in auditing in the region and/or in the Lao PDR.
- Extensive experience in financial statements audit of World Bank and/or donor funded projects.
- no conflict of interests in relation to the project and its activities.

#### For Auditors-in general

- Auditors should hold relevant professional and educational qualifications. They should hold a relevant professional auditing license/registration.
- Auditors should have a minimum of five (5) year experience in conducting audits of donor funded projects and project financial statements.
- Auditors should have experience in auditing in the region and in the Lao PDR with relevant language skills.
- Auditors should have no conflict of interests in relation to the project and its activities.

#### For the Audit Partner

- Should have a postgraduate qualification in accounting or auditing and be a member of international recognized Professional Accounting or Auditing Bodies; at least 10 years of experience in financial auditing with substantial experience in auditing public sector clients; not less than 5 years of experience in a leadership role.

#### For Audit Manager

- Should have a minimum undergraduate qualification in accounting or business and finance related fields and be a member of international recognized Professional Accounting or Auditing Bodies; at least 5 years of experience in financial auditing



and auditing of financial statements with substantial experience in auditing public sector clients; not less than 3 years in a lead position in charge of audit teams.

For Qualified Members of the Audit Team

- Should have a degree level qualification in accounting and auditing, at least 3 years of experience in auditing as a member of an audit team, preferably in auditing public sector clients.

**General**

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 and other Donors records.

The auditor is encouraged to meet and discuss audit related matters including input to the audit plan with the Head/Deputy of the PIU, the Project Finance Management Consultant as well as the World Bank team where required.

It is highly desirable that the auditor become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and disbursement. These guidelines include:

- Loan Handbook for World Bank Borrowers, dated February 2017(available on World Bank web site);
- Disbursement Guidelines for Investment Project Financing, dated February 2017(available on World Bank web site).
- New Procurement Framework and Regulations for Projects After July 1, 2016

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.

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Interested firms/candidates should submit their CV and cover letter with the Job Title, no later than 01/02/2019, to:

Mr. Chittakone Savathdy  
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