



TERMS OF REFERENCE
Independent External Auditor for Annual Project Financial Statements Audit
(Consulting Firm Selection)

Project Name:	Cambodia Sustainable Livelihood for Indigenous Communities (P174951)
JSDF Grant No.	TF B6238
NGO:	Analyzing Development Issues Centre
Procurement Plan:	ADIC-CSLICP-CQS-020
Procurement Type:	CQS (Consultants' Qualifications Selection)
Total project cost:	USD 2,746,732.00
Project Period:	2021-2025
Duration:	Annually from Calendar Year 2022
Location:	Phnom Penh office with travels to the target provinces (Monduliri and Ratanakiri) to verify the project's activities

1. Introduction

Analyzing Development Issues Centre (ADIC) is registered as local non-government organization (NGO) in 2011 with the Ministry of Interior and has been implementing a wide range of research and development projects in Cambodia, funded by different development partners. ADIC, being the Implementing Agency, has received a grant funding from the Japan Social Development Fund (JSDF), administered by the World Bank, for implementing the Cambodia Sustainable Livelihood for Indigenous Communities Project ("CSLICP" or "the Project"). The CSLICP is being implemented during 2021-2025 (December 23, 2021 to December 31, 2025 and its geographical coverage will focus on the provinces of Ratanakiri and Monduliri.

2. Background to the CSLICP

The agricultural production potential in Indigenous Communities ICs remains largely untapped, particularly for horticulture for which climatic conditions in the areas are very favourable. This is largely due to the lack of introduction of improved technology and ineffective extension services to improve husbandry practices. Agricultural extension services provided by various public agencies have generally focused on rice production and aquaculture development, thus paying very little attention to horticulture promotion in ICs. In addition, lack of adequate access to irrigation in these communities, as reported in the 2013 agricultural census, has been an important handicap for horticulture development, thus limiting production systems to rainfed cultivation of rice, sweet potato, cassava, and other crops primarily for home consumption. Farm productivity is low.

Domestic demand for vegetable products has been growing fast due to rapid urbanization, increased income, and tourism. Nearly 60 percent of market supplies are imported from Vietnam, valued at US\$140 million per year. Furthermore, the COVID-19 -trade restrictions and other barriers have led to more reliance on domestic supplies. Opportunities for the development of horticulture value-chains in indigenous communities are therefore substantial, as illustrated by the growing presence of agro-industries involved in horticulture in the IC areas. This is largely due to the favourable natural conditions of these mountainous areas, such as altitude and climate.

The CSLICP has been designed as a complement to the World Bank-funded Land Allocation for Social and Economic Development Project III (LASED III). The IC beneficiaries of the CSLICP (20 ICs) are drawn from the list of ICs that are covered by LASED III in the provinces of Ratanakiri and

Mondulkiri (totaling 24 ICs), all of whom have obtained their Indigenous Community Land Titles (ICLTs). In addition to their ICLTs which provide them with land security, LASED III will provide funding support to improve the livelihoods of community members through the implementation a variety of community infrastructure and other agriculture development assistance. The CSLICP will aim at further improving the livelihood of its beneficiaries through implementation of complementary livelihood activities, focusing on specific horticulture value chains and related off-farm activities, as well as other non -farm activities.

3. Project Development Objective, Components of the Cambodia Sustainable Livelihood for Indigenous Communities (CSLICP) and Annual Projected Disbursements

The objective of the CSLICP is to improve the livelihoods of the targeted indigenous communities in the provinces of Ratanakiri and Mondulkiri, through innovative farming practices, complemented by off-farm and non-farm activities. The JSDF intervention will generate new and sustainable sources of incomes for project beneficiaries through the development of a lucrative horticulture value chain, the emergence of a local agri-processing industry, and ecotourism services. The CSLICP has 3 main components. Component 1. Livelihood support through innovative horticulture-based farming practices and technical training for off-farm and non-farm activities. This has 4 sub-components including 1.1) Introduction of new improved horticulture production practices for community farmers through farmer-managed demonstration farms; 1.2) provision of environmentally sustainable water solutions for agriculture and adaptation to climate change; 1.3) setting Up School Bio-Gardens f or Capacity Development of Students; Community-Based Vocational Training for Youth; 1.4) Community-Based Vocational Training for Youth. Component 2: Improving Producer Links to Markets and Horticulture Support Services; and, Component 3: Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination. Further information of the Project can be found at <https://projects.worldbank.org/en/projects-operations/project-detail/P174951>

All of the accounting records are in the Project Office in Phnom Penh. The annual projected disbursements of the Project are:

- Year 2022 US\$131,173.37
- Year 2023 US\$ 707,789.33
- Year 2024 US\$ 1,194,993.00
- Year 2025 US\$ 712,776.30
- Total US\$ **2,746,732.00**.

ADIC is seeking to engage the Independent Auding Firm for Auditing of the CSLICP's annual project financial statements starting from Year 2022 to 2025

4. Objectives of the Project Audit

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the audited project at the end of each financial year 2022 to 2025 and funds received, and expenditures incurred under the project for each financial year ending December 31.

The project books of accounts provide the basis for preparation of the PFSs by the Implementing Agency and are established to reflect the financial transactions in respect of the project. The Implementing Agency maintains adequate internal controls and supporting documentation f or transactions.

5. Preparation of Annual Project Financial Statements

ADIC's management is responsibility for the preparation of project financial statements, including maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, the safeguarding of the assets of the project, and adequate disclosure. The agency would prepare the PFSs in accordance with public accounting on cash basis accounting.

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the Cambodia International Standards on

Auditing (CISA), as promulgated by the National Accounting Council (NAC) of the Ministry of Economy and Finance. As part of the audit process, the auditor may request from the project management written confirmation concerning representations made in connection with the audit.

6. Scope of the Audit

The audit will be conducted in accordance with the Cambodia International Standards on Auditing (CISAs), which mirror the International Standards on Auditing (ISAs), issued by the National Accounting Council (NAC). These Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the project financial statements are free of material misstatements. An audit includes examining on the risk's basis, on a test basis, evidence supporting the amounts and disclosures in the project 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 CISAs, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:

- (a) ***Fraud and Corruption:*** 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 Cambodia International Standard on Auditing 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- (b) ***Laws and Regulations:*** When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with the Letter Agreement, in particular, General Standards of the Letter Agreement, laws and regulations may materially affect the financial statements, as required by Cambodia International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements.
- (c) ***Governance:*** The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity, as required by Cambodia International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- (d) The auditor should communicate appropriately to those charged with governance and to management any deficiencies in internal control that the auditor has identified in an audit of financial statements, as required by Cambodia International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- (e) ***Risks:*** 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 Cambodia International Standard on Auditing 330: The Auditor's Responses to Assessed Risks.
- (f) When certain aspects of an entity's operations are performed by a third-party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process, as required by Cambodia International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization.
- (g) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance, as required by Cambodia International Standard on Auditing 580: Written Representations.
- (h) When the external auditor decides to use the work of an entity's internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with Cambodia International Standard on Auditing 610 (Revised): Using the Work of Internal Auditors.

- (i) In determining whether to use the work of an auditor's expert or the extent to which the work of an auditor's expert is adequate for audit purposes, the determination shall be made in accordance with Cambodia International Standard on Auditing 620: Using the Work of an Auditor's Expert.

In evidencing compliance with agreed financing arrangements, the auditor is expected to carry out tests to confirm that:

- (a) All external funds have been used in accordance with Letter Agreement, Standard Conditions/ requirements to the Letter Agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.
- (b) Goods and services financed have been procured in accordance with relevant financing/letter agreements, including specific provisions of the World Bank Procurement Regulation and other applicable national guidelines stimulated in the project documents.
- (c) Training/workshop expenses and operating costs financed have been rendered/purchased in accordance with the financing/letter agreement, including specific provisions of the approved project Financial Management (FM) manual/ procedures annexed to the Project Implementation Manual (PIM).
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures based reported using Statements of Expenditure (SOE). The auditor is expected to verify that respective SOE issued during the period were agreed with the underlying books of account.
- (e) The Designated Account has been maintained and operated in accordance with the provisions of the relevant financing agreements.
- (f) If the audit covers up to the closing date, the auditor shall review payments made during the grace period and disclose other unpaid commitments. The auditor shall ensure that payments made during the grace period are only for goods and services that are satisfactorily completed and accepted by the closing date.
- (g) The auditor shall conduct risk assessment and verify the use of grants for intended purposes at the community or sub-project or provincial offices in the target provinces. The auditors shall conduct field visits to the provincial project offices, communities, and project sites as appropriate in each year of financial audit.
- (h) The auditor shall pay more attention to risks of fraud relating to payments/transactions settled in cash such as operating costs, and training and workshop activities. The incurred expenditures are duly complied with the approved specific project FM Manual, the work plan and the Letter Agreement.
- (i) When ineligible expenditures included in SOEs are identified, they should be separately noted in the Management Letter.
- (j) The audit shall cover all sources of funds in the project, if any.
- (k) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the Letter Agreement.

7. Review of Internal Controls.

Regardless of the level of risk, the auditor is required to review and evaluate the Implementing Agency's internal control to obtain a sufficient understanding of the design of relevant control policies and procedures and whether those policies and procedures have been operated as intended. The auditor must then prepare a report identifying significant deficiencies in the design or operation of internal control and other material weaknesses and reportable conditions.

8. Methodology

In response to these terms of reference, a methodology will be proposed by the auditor. The audit required must be comprehensive and it is expected that a high degree of probity, compliance with the law and accountability be reflected in the methodology. The methodology should address and document in the technical proposal as a minimum:

- Compliance with CISAs
- Understanding of the environment, nature of the project and key areas of risk in the Project
- Audit planning and the role that the client is expected to play in this process
- The proposed audit teams' experience for each annual audit
- The resources to be allocated to the audit by each year
- The approach to fieldwork (i.e., gathering of evidence to support assertions to be made in the Audit Opinions, visit of the communities, sub-grants in project provinces)
- Quality assurance arrangements (including mechanisms for the client to be involved in this process)
- Timetable for completion of the audit work to ensure that the project is able to submit to the World Bank by the deadline.

The methodology proposed by the auditor, adjusted for any changes agreed during contract negotiations, will form part of the contract with the auditor. Any subsequent replacement of the proposed auditors shall be with persons having equally or better qualifications and subject to be approved by ADIC.

9. Project Financial Statements

The auditor should verify that the PFSs have been prepared in accordance with the Cash based Cambodia International Public Sector Accounting Standards (hereinafter referred to “Cambodia Public Accounting Standards on Cash basis of Accounting” issued by National Accounting Council, Ministry of Economy and Finance. The project financial statements should include:

- (a) A statement of cash receipts and expenditures and fund balance;
- (b) Notes, comprising a summary of significant accounting policies and other explanatory notes;
- (c) When the entity makes publicly available its approved budget, a comparison of budget and actual accounts either as a separate additional financial statement or as a budget column in the financial statements.

The explanatory notes should include reconciliation between the amounts shown as “received by the project from the World Bank” and those disbursed by the World Bank and a summary of movements on the project’s designated account. It should also present the receipts and expenditures for the previous year, current year and accumulated years of each source of funds by cost category, component/sub-components.

10. Review of Statements of Expenditure

The auditor is required to audit all SOEs submitted to the World Bank in support of requests for periodic replenishment of the project designated account and documenting expenditures. Expenditures should be examined for eligibility based on criteria defined in the terms of the Letter Agreement and detailed in the Project Paper. The auditor should report any ineligible expenditures identified as having been included in withdrawal applications, direct payments, and reimbursed into the management letter.

11. Review of designated account

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

12. Audit Report

The auditor will issue an audit opinion on the project financial statements. The auditor’s opinion shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for that opinion. The audit report shall be prepared in accordance with Cambodia International Standard on Auditing 700.

An unmodified audit opinion shall be rendered in the project financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the project financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the project financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with Cambodia International Standard on Auditing 705.

The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the project financial statements, seeks to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of clear additional communication in the auditor’s report. The paragraphs will refer to either a matter that, although

appropriately presented or disclosed in the project financial statements, is of such importance that it is fundamental to users' understanding of the project financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. This form of opinion will be presented in accordance with Cambodia International Standard on Auditing 706.

13. Other Audit Reports

In addition to the audit opinion, the auditor will also, either in the audit report or in the report to management:

- (a) review whether the project is operating in accordance with the principles of economy, efficiency and/or effectiveness and whether there is room for improvement;
- (b) provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- (c) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- (d) report on instances of noncompliance with the terms of the Letter Agreement;
- (e) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account or claimed from the World Bank;
- (f) communicate matters that have come to attention during the audit that might have a significant impact on the implementation of the project;
- (g) report on results of the review of procurement post review contracts under the project and included in the management letter; and
- (h) bring to the ADIC management team's attention any other matters that the auditor considers pertinent.

The auditor's opinion on the project financial statements and management letter should be submitted to ADIC which will be submitted to the World Bank no later than six months after the end of financial year.

14. Management Letter

With the Audit Opinion, the auditor will submit a Management Letter, and the Management Letter should address as a minimum the following:

- The auditors review (assess) the projects internal control system with equal emphasis on (1) the effectiveness of the system in providing project management with useful and timely information for the proper management of the project, (2) the general effectiveness of the internal control system in protecting the assets and resources of the project, and (3) the effectiveness of the system in ensuring compliance with laws, regulations and funding agreements;
- A description of any specific internal control weaknesses noted in the financial management of the project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included;
- Report on the degree of compliance of each of the financial covenants in the Letter Agreement and the standard conditions in the use of the grant proceeds for intended purpose,
- The auditors disclose questionable or ineligible expenditures regardless of the amount;
- The auditors should describe the scope undertaken on the review of procurement and disclose procurement performance and questionable of procurement transactions; and
- The auditors shall disclose risks and non-compliance with the guidelines/manuals relating to implementation of project activities, community related expenses, including procurements of goods and services as the result from the field visits to the project locations etc.

15. Submission of the Audited Report

The three original set of audited Project Financial Statements and the associated Audit Opinion and Management Letter and other relevant reports in English shall be delivered to the project. The audited project financial statements and the management letter is required to be submitted to the World Bank through the Client Connection by ADIC.

After receiving an acknowledgement from the World Bank, the audited annual project financial statements are required to post into the website of the project or on ADIC website each year for public access as required by Access to Information Policy of the World Bank.

16. Quality Review

The audits performed by the Auditor are subject to a quality review by the World Bank or its designated person (s) to ensure quality of audits.

17. Auditor Qualifications

For a qualifying firm, it is envisaged that the appointed firm will meet the following qualification requirements and experience skills:

1. For an Auditing firm

- Be a legal entity with business license granted by competent authority in Cambodia
- Be an entity, including any associated firms for this assignment, acceptable to the Government and the World Bank Group as being capable of meeting the standards for review of auditors and conducting audits in accordance with International Standards of Auditing
- Experience in financial auditing in the public sector and Not-for profit organizations
- Experience in auditing in the region
- Experience in financial auditing of World Bank Group and/or donor funded projects

2. For the Audit Partner(s):

- Should have a post graduate level qualification in accounting and possess an internationally recognized qualification in auditing;
- Be eligible to sign the projects Audit Opinion on behalf of the audit firm;
- At least 15 years ' experience in financial auditing with substantial experience in auditing public sector clients;
- Not less than 8 years' experience in a leadership role.

3. For the Project Manager/Audit Manager

- Should have a postgraduate level qualification in accounting or related discipline, and preferably possess a qualification in auditing;
- 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.

4. For Senior Auditor

- Should have a graduate level qualification in accounting or related discipline;
- At least 8 years of experience in financial auditing and auditing of Financial Statements with substantial experience in auditing public sector clients and not-for-profit organizations;

- Not less than 5 years in a lead position in charge of audit teams.
- Senior auditor with relevant procurement experience will be advantage.

5. For Auditors

- 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 and not-for-profit organizations.
- At one of the proposed auditors is required to have relevant procurement knowledge and at least three years procurement reviewing experience for Development Partners funded projects.

18. Available Information

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. Available information should include copies of the relevant: project paper; letter agreement; supervision mission reports and implementation status reports etc.

Interested firms are requested to submit the Expression of Interest with referees by email with subject line “Application for Independent External Auditor for Annual Project Financial Statements Audit _ ADIC-CSLICP-LCS-020” and attention to following address: info@adicentre.org and copy to iloeur2@gmail.com and soeun.cham@gmail.com.

The Expression of Interest must be submitted no later than the **14th of February 2023**.

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