

**MINISTRY OF PUBLIC WORKS AND TRANSPORT
DEPARTMENT OF INSPECTION**

**TERM OF REFERENCE
FOR ANNUAL FINANCIAL AUDITS
NR13 IMPROVEMENT AND MAINTENANCE PROJECT (P163730)**

INTRODUCTION

The Ministry of Public Works and Transport (“MPWT”) is the Project Implementing Agency, and the project will be implemented through existing government structures. Given the complexity and nature of the project, which requires involvement of many government agency at both central and local, it was agreed that MPWT will establish a Project Steering Committee chaired by the Minister and co-chair by the Vice Major of Vientiane Capital and Vice governor of Vientiane Province. The committee will be tasked with policy guidance and coordination among agencies concerned. Since OPBRC is new approach in the Lao Road Sector, involving long term commitment of both government and contractor, risk sharing between GoL and contractors, it is necessary that MPWT and agencies concerned to review legal, technical and administrative aspects relevant to the task and risks allocation to each party. It was agreed that MPWT will establish a technical working group chaired by Director General of DoR to work on these aspects.

The Project is designed as an Investment Project Financing (“IPF”) and is financed through an International Development Association (“IDA”) of US\$40 million, Asian Infrastructure Investment Bank (“AIIB”) Credit of US\$40 million, Nordic Development Fund (“NDF”) US\$9.5 million equivalent, and the Government of Lao PDR contribution of US\$38.5 million. The total project financing requirements are estimated at US\$128 million, inclusive of price and physical contingencies.

The Project Development Objective of the Project is to improve road condition, safety and climate resilience on critical sections of the National Road 13 (“NR13”). NR13 is the most important highway in Lao PDR, connecting Laos with China in the North and Cambodia in the South for a total length of 1,500 km. The project road section, from Vientiane to Phonhong, is 58 km (km 12 to km 70) serving high traffic volumes. The key outcomes of proposed investment will be improved: (i) road condition by yielding significant economic benefits from reduced travel time, vehicle operating cost and road congestion; (ii) road safety by helping reduce traffic injury and fatality risks as well as enhancing safety of pedestrians; and (iii) climate resilience by building road infrastructure, which is more resilient to climate events.

The Project has three components. Component 1 on Road Improvement and Maintenance, Component 2 on Technical Assistance and Supervision, and Component 3 on Project Management:

- Component 1: Road Improvement and Maintenance - This component will finance road widening, improvement as well as maintenance an operation works under

the Output and Performance Based Road Contract (OPBRC) and land acquisition required for road works.

- Component 2: Technical Assistance and Supervision - This component will support MPWT to manage the OPBRC implementation, implement traffic safety awareness activities, overloading control, enhance environmental and social monitoring and supervise road improvement and maintenance works. The component will also support preparation of studies for future investments on other sections of NR13.
- Component 3: Project Management - This component will be financed by IDA to support project management, including technical and operational assistance for day-to-day management of project activities including training on output and performance based contracting, project planning and execution, financial management, procurement, monitoring and evaluation, and technical and financial audits.

In addition, on 26 June 2018, AIIB agreed to support the Project with the AIIB Project Preparation Special Fund (“the Special Fund”) amounting to US\$ 995,000 for technical assistances as (i) Consultancy for Support for RAP Preparation and Implementation; and (ii) Consultancy for Conceptual Design of OPBRC for NR 13 South section approaching Vientiane Capital. The Special Fund will be implemented during the period from June 2018 to 31 July 2019.

THE AUDITOR APPOINTMENT

MPWT is seeking the services of an independent qualified external auditor to carry out audits of the Project’s annual financial statements for the entire period of the Project (from 22 January 2019 to 31 May 2023).

The auditor will be appointed for the entire project life from 22 January 2019 to 31 May 2023 (FY2019, 2020, 2021, 2022 and 2023), the current Project closing date. Except for the first audit which will cover the period from 22 January 2019 to 31 December 2019 and final audit which covers the period from 1 January 2023 to 31 May 2023. The auditor will conduct an audit of the financial statements for each fiscal year ending December 31.

The continued engagement of the auditor for each financial year will be subject to satisfactory performance in conducting the audit of previous years’ financial statements, including the timely submission of the audit reports in accordance with the agreed timeframes and financial covenants of the relevant financing agreements with donors.

In addition, a separated audit is required for the Special Fund granted by AIIB for the period from 26 June 2018 to 31 July 2019.

THE EXECUTING AGENCY

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ACCOUNTING STANDARDS

The financial statements will be prepared on a modified cash basis of accounting in accordance with the generally accepted accounting principles apply in projects in the Lao PDR.

ACCPAC accounting software is used to record financial transactions and generate financial reports such as General Ledger, Trial Balance, Balance Sheet, Profit and Loss Accounts, Bank Reconciliation Statements and Journal Entries. The books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions and position in respect of the program.

Subsidiary and supporting records are held in paper registers and files. Contract monitoring and commitment information are maintained on Excel spread sheets.

OBJECTIVES

The objective of the audit of the Project financial statements is to enable the auditor to express a professional opinion on the Project's financial position as at the end of each of the accounting period specified below and of the statement of cash receipts and payments for the accounting period ending on that date. The Project's books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the Project.

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 Project. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

1 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.

2 In complying with IS A, the auditor is expected to pay particular attention to the following matters:

(a) 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 are required by [ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements](#).

(b) 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 [ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements](#).

(c) 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 [ISA 260: Communication of Audit Matters with those Charged with Governance](#).

(d) 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 [ISA 330: The Auditor's Procedures in Response to Assessed Risks](#).

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) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;

(c) Goods, works and services financed have been procured in accordance with relevant financing agreements, including specific provisions of the [Procurement Regulations](#)¹;

¹ 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 [IS A 620: Using the Work of an Expert](#). 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.

- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (“SOE”) or the Interim Unaudited Financial Statements method of reporting (IFR), as the case may be. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account.
- (e) Expenditure incurred /paid by provincial departments of public work to ensure funds have been used for the intended purposes and related controls are working as intended.
- (f) Auditors are required to travel to and carry out field visit during their assignments period.

PROJECT FINANCIAL STATEMENTS

The auditor should verify that the financial statements have been prepared in accordance with modified cash basis of accounting. The financial statements should include:

- (a) A statement of fund balance;
- (b) A statement of receipts and expenditure;
- (c) A statement of expenditure classified by funding allocation (disbursement category and Project component);
- (d) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
- (e) 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 IDA/AIIB/NDF" and that disbursed by the IDA/AIIB/NDF and a summary of movements on the Project’s Designated Account.

The audit shall cover the financial statements for each of the following periods:

- (i) For the period from project 22 January 2019 to 31 December 2019;
- (ii) For the year ending 31 December 2020;
- (iii) For the year ending 31 December 2021;

- (iv) For the year ending 31 December 2022; and
- (v) For the period from 1 January 2023 to 31 May 2023 (the current closing date)

The final audit of the Project financial statements for the period from 1 January 2023 to 31 May 2023 (the current closing date) shall cover a review of payments made during the grace period (currently is 1 June 2023 to 30 September 2023) and disclose other unpaid commitments.

For Special Fund, audit shall be covered the period from 26 June 2018 to 31 July 2019 including a review of payments made during the grace period (currently is 1 August 2019 to 1 December 2019) and disclose other unpaid commitments.

REVIEW OF STATEMENTS OF EXPENDITURE (“SOEs”)

The auditor is required to audit all SOEs submitted to the IDA/AIIB/NDF in support of requests for periodic replenishment of the Project designated account(s). Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, they should be reported regardless of the amount.

REVIEW OF DESIGNATED ACCOUNTS

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

REVIEW OF INTERIM UNAUDITED FINANCIAL STATEMENTS (“IFRs”)

The auditor is required to review all quarterly IFRs submitted to the IDA/AIIB/NDF and assess the reliability of those IFRs. The auditor is required to (i) assess methods used to compile IFRs to ascertain that the information given in IFRs accurately reflects the underlying records and documents, (ii) compare contents of IFRs prepared during the year with annual financial statements and verifying that the year to date figures in the final quarter are reconcilable with the annual statements.

AUDIT REPORTS

The auditor will issue an audit opinion on the financial statements for each period.

In addition to the audit opinion, the auditor will also prepare a management letter 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 Project's and the IDA/AIIB/NDF'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 financial statements, including the auditors' opinion, and management letter should be received by the Project in time to enable the project to submit to the IDA/AIIB/NDF no later than six months after the end of each of auditing period. Time table including schedule of submission of report will be discussed and agreed with the auditors annually. In addition, the annual financial statements, including the auditors' opinion will be published in MPWT's website in accordance with the requirements of the World Bank. Therefore, the auditor's opinion should not include statement restricting disclosure.

It is expected that the auditor will schedule an interim audit to review controls and apply necessary audit procedures in order to provide timely recommendations to any identified control weaknesses and to timely remedy any significant issues leading to delay in finalizing the audit report. The interim management letter shall be issued in this regard.

For Special Fund, the financial statements, including the auditors' opinion, and management letter should be received by the Project in time to enable the project to submit to the AIIB no later than 31 January 2020.

EXIT CONFERENCE

Upon completion of fieldwork, the auditor will hold a closing or exit conference with the Project's management or its senior representatives. The exit conference will give the auditor an opportunity to obtain management's 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 should consider documenting the exit conference for inclusion in the audit work papers.

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 records.

The auditor is encouraged to meet with the Department of Inspection, Department of Finance, Department of Roads, Department of Planning and Cooperation, and concerned Departments to discuss audit related matters including input to the audit plan. If requested the World Bank task team is also happy to provide necessary information.

The auditor should be impartial and independent from all aspects of management or financial interests of the implementing agency of the Project. The auditor should not, during the period covered by the audit, be employed by, or have any financial or close relationship with the implementing agency or with any of its senior management.

To avoid potential conflicts of interest, the auditor is not allowed to advise or assist with the establishment of the Project's financial management system.

AUDITOR QUALIFICATION

For a qualifying firm, it is envisaged that 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.
- Experience in financial auditing in the public sector.
- Experience in auditing in the region and in the Lao PDR.
- Extensive experience in financial statements audit of World Bank and/or donor funded projects.

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 three years of experience in conducting audits of donor funded projects and project financial statements.
- Auditors should have experience in auditing in the region and the Lao PDR with relevant language skills.
- Auditors should have no conflict of interests in relation to the project and its activities.

For Audit Partner

- At least a bachelor's in accounting or auditing, and possess a professional qualification from international recognized Professional Accounting or Auditing

Bodies; at least 15 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 the Audit Manager

- At least a bachelor degree in accounting or auditing and possess a professional qualification from 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 3 years of experience in a leadership role.

For Senior Auditor

- At least a bachelor degree 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 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.