

**TERMS OF REFERENCE FOR A
PROJECT FINANCIAL STATEMENTS AUDIT**

**Audit of the Financial Statements of Micro, Small and Medium enterprise Access to Finance-
Emergency Support and Recover Project (MSMEA2F-ESR Project)**

Introduction

Department for Small and Medium Enterprise Promotion (DOSMEP) is seeking the services of a qualified audit firm to conduct an audit for the period from effective date to 2025 for Micro, Small and Medium enterprise Access to Finance-Emergency Support and Recover Project (MSMEA2F-ESR Project).

Brief Project Background

The Government of Lao PDR (GOL) has requested the World Bank Group, specifically the International Development Association (IDA/World Bank) to support its efforts to remove the bottlenecks that constrain access to finance by small and medium enterprises (SMEs) through the Small and Medium Enterprises Access to Finance Project (SMEAFP, the Project).

The IDA has provided US\$40 million equivalent to the Ministry of Finance (MoF) of the Lao PDR, where 100 percent of the funding is credit. The Project will be managed by the Department for SME Promotion at the Ministry of Industry and Commerce (MoIC). Other agencies involved in project implementation include International Finance Corporation, and Participating Financial Institutions (PFIs).

Project Development Objective: The project aims to enhance access to finance for MSMEs in the context of the COVID-19 emergency and recovery. It will achieve this through a combination of lines of credit to MSMEs (for emergency and recovery phases of the crisis), intermediated through select eligible financial institutions, and technical assistance to support the establishment of a Partial Credit Guarantee (PCG) facility to backstop bank lending to MSMEs. The project will also invest in strengthening the capacity of financial institutions to implement crisis management strategies and develop MSME finance business strategies, technical assistance to support MSMEs obtain access to finance, and capacity building to DOSMEP to strengthen its ability to formulate and implement policies to promote MSME development. While the project is focusing on emergency response to the crisis, it will also have a longer-term impact on the economic recovery by providing a flexible approach to addressing financial needs of the MSMEs during the crisis and in the recovery phase

The Project has three Components:

Component 1: Emergency and Recovery Line of Credit to MSMEs

Component 2: Strengthening BOL Capacity to Supervise PCG Facility

Component 3: Technical Assistance and Project Management

There will be four types of beneficiaries in the project:

1. Commercial banks with sound financial condition and in compliance with fiduciary and regulatory standards, willing to participate in the project and provide long term credit to MSMEs.
2. Privately-owned and registered MSMEs willing to borrow from commercial banks to expand their business activities, carry out new investments, or enhance their productivity. For the emergency window of Component 1, MSME beneficiaries will include those impacted by the COVID-19 crisis as defined in eligibility criteria in Project Operations Manual.

3. The BOL, for the design of the credit guarantee facility will benefit from technical assistance, drawing on international good practices
4. The Department of Small and Medium Enterprise Promotion

Objective

The objective of the audit of the project financial statements are to enable the auditor to:

- Express an independent opinion on the Project's financial reports for the project for the relevant financial years, in accordance with the adopted accounting standards as described in the financial statements;
- Assess the compliance with laws, regulations and funding agreements that have a direct and material financial effect on the project's financial reports;
- Express an opinion on management's assertions that they complied with laws, regulations and provisions of contracts and agreements and that they maintained an effective internal control framework over the program.

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 in connection with the audit.

Scope

The audit should cover all sources of financing under the Project. The audit will be carried out in accordance with the International Standards on Auditing (ISA) and should include such tests as the auditors consider necessary. ISA 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. Planning and conducting the audit will be in accordance with a risk-based framework with a detailed audit work program. The audit coverage will consider the risk of material misstatement as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements will be detected.

In complying with International Standards on Auditing, 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 as required by International Standard on Auditing 240: The Auditor's Responsibility Relating to 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 International Standard on Auditing 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 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 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.
- (e) 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.
- (f) 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.
- (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 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 agreements¹, including specific provisions of the World Bank's Procurement Regulations for IPF Borrowers (Procurement in Investment Project Financing-Goods, Works, Non-Consulting and Consulting Services, July 2016 Revised November 2017 and August 2018) introduced by the Bank under the Procurement Framework (PF) and 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', revised as of July 1, 2016; and the provisions stipulated in the respective Legal Agreements of each project. 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) 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.

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 [International Standard on Auditing 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.

- (e) Review, on a sample basis, the compliance of each of the financial covenants in the Loan/Financing agreements between DOSMEP and PFI.
- (f) On a sample basis, (i) verify existence of the sub-loans financed by PFIs; and (ii) on a sample basis (number to be agreed with the Client), audit the financial records of the Beneficiaries who have received loans from PFIs. The objective of the sample audit would be to ensure that the loan proceeds were used for the intended purposes as specified in the loan agreement between the PFI and the Beneficiary, financial transactions with respect to the loan amount has been recorded with the relevant documentation on file and all procured assets are with and accounted for by the Beneficiaries. A summary report should be attached as an Annex to the main audit report.

Project Financial Statements

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

- a) A statement of designated account fund balance
- b) A statement of cash receipts and payments by expenditure category and by component for both for the current period and accumulative to-date.
- c) When the entity makes publicly available its approved budget, a comparison of budget and actual amount either as a separate additional financial statement or as a budget column in the financial statements; and
- d) 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) 21 Jan 2021 to 31 December 2021
- (ii) 1 January 2022 to 31 December 2022
- (iii) 1 January 2023 to 31 December 2023
- (iv) 1 January 2024 to 31 December 2024
- (v) 1 January 2025 to 31 March 2026 (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 and Interim Un-audited Financial Statements

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 term of the financing agreements and detailed in the Project Appraisal Document and other relevant documents. Where ineligible expenditures are identified as having been included in the withdrawal applications and reimbursed, they should be reported regardless of the amount.

The auditor is required to review all IFRs submitted to the World Bank 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 period are reconcilable with the annual statements.

Review of designated 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 an audit opinion on the financial statements of the project for each fiscal year 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 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 final financial statements, including the audit opinion, and management letter should be received by the Project in time to enable the project to submit to the World Bank no later than six months after the end of each of auditing period.

The auditor's opinion on the financial statements and management letter (where applicable) should be received by the DOSMEP by 25th May each year or as advised.

Public Disclosure

In accordance with "The World Bank (the Bank) Policy on Access to Information 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 should not contain a statement limiting the disclosure and distribution.

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 entire duration of the project, which is expected to last until the project closure date. The contract will be signed for the whole project duration. The cost for the audit of each auditing period will be predefined and fixed in the contract. However, 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 timely submission of the audit reports in accordance with the agreed timeframes.

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's 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.

General

1. 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.
2. The auditor is encouraged to meet and discuss audit related matters including input to the audit plan with SMEA2F project finance/task team as well as the World Bank team where required.
3. 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:
 - Disbursement Handbook for World Bank Clients, dated Feb 2017 (available on Client Connection web site);
 - Disbursement Guidelines for Projects, dated Feb 2017 (available on Client Connection web site).
4. World Bank's Procurement Regulations for IPF Borrowers (Procurement in Investment Project Financing- Goods, Works, Non-Consulting and Consulting Services, July 2016 Revised November 2017 and August 2018).

The auditor should understand that audit working papers under the World Bank financed project are subject to the review by Client's and/or World Bank designated staff/consultant to ensure compliance with ISA and ISQC 1.

Annex 1. Detail of Approval Authorities

Annex 2: Ministerial Decision applicable at time of implementation and related exceptions a notified by the World Bank

To be inserted

Annex 3: IDA Financing Agreement

To be inserted

Annex 4: Cost code by component

Annex 5: The World Bank Disbursement letters

Annex 6: Auditor's TOR