

TERMS OF REFERENCE
Audit of Project Financial Statements
“Local Governments and Climate Change”,
“Readiness and Preparatory Support Project”, and
“Upgrading the climate investment information database”
Project

I. BACKGROUND

1. The National Committee for Sub-national Democratic Development (NCDD) is the inter-ministerial mechanism for promoting democratic development through decentralization and deconcentration reforms throughout Cambodia.

The core mission of NCDD/NCDDS is to play an important role in implementing decentralization reform policies, local governance and capacity development by developing regulations and providing finance to local governments. The NCDD is also committed to address the climate change issues mainly focuses on adaptation by engaging local government bodies in adaptation activities in areas such as livelihood enhancement, infrastructure and water security.

NCDDS is seeking the services of an independent auditor to carry out audit of the project’s financial statements. The selected auditor will be appointed to conduct audits of the following projects:

- I. Local Governments and Climate Change (LGCC): the project is designed is to demonstrate the role of local governments in fostering climate change resilience and to identify practical ways to mainstream climate change resilience into sub-national planning and finance systems. The Memorandum of Understanding/Letter of Agreements (MoU/LoA) was signed between United Nations Capital Development Fund (UNCDF) and National Committee for sub National Democratic Development Secretariat (NCDDS) for a total financing support in 2022 is USD 597,169 and 2023 is USD 525,665. The project location is at NCDDS and Battambang province
- II. Upgrading the climate investment information database of sub-national government of Cambodia project: the project is aim to provide the reliable and efficient public service delivery through strengthening of climate investment information and climate change vulnerability and loss and damage indicators. The project was agreed and LOA signed between the National Council for Sustainable Development (NCSD) and National Committee for sub National Democratic Development Secretariat (NCDDS) on 31 May 2022 with a total financing of USD 94,967. The project starting date is 1st July 2022 and completion date 31 December 2023. The project location is at NCDDS
- III. GCF Readiness and Preparatory Support Project: “Support to Direct Access Entity in Cambodia to meet accreditation conditions (KHM-RS-005) project: The overall project output and activities has developed around two GCF readiness outcomes (1) focusing on capacity of direct access entities and (2) focusing on increasing number and quality of concept notes. The project was agreed and (PCA) signed between the United Nation Office for Project Services (UNOPS) as grant management delegated by Green Climate Fund and National Committee for sub National Democratic Development Secretariat (NCDDS) on 26 February 2021 with a total grant of USD 517,000.00. The project starting

date is 09th April 2021 and completion date is 08th January 2024. The project location is at NCDDS.

II. OBJECTIVES

2. The objective of the audit of project financial statement is to enable the auditor to express an independent professional opinion on:
 - whether the project financial statements (including the notes thereto and supplementary statement) present fairly in all material aspects (or give a true and fair view of) grant financial position as at each accounting year-end and its cash flows for the year then ended conformity with the adopted accounting standards of the project executed by NCDDS.
 - Whether the proceeds of the grant /fund were used for the intended purpose
 - Assessment the compliance with laws, regulations and Memorandum of Understanding/Letter of Agreement (MoU/LoA) that have a direct and material financial effect on the project financial statement.
 - Management's assertions that they complied with laws, regulations and provisions of MoU/LoA and that they maintained an effective internal control framework over the project.

III. ACCOUNTING STANDARDS

3. The project financial statements will be prepared on a modified cash basis of accounting in accordance with the Cambodian International Financial Reporting Standards (CIFRS), the NCDD Operation Policies and Procedures (OPP), and the MoU/LoA, and CPA adhered there to.

IV. MANAGEMENT RESPONSIBILITY.

4. The management is responsible for preparing and fairly presenting the project financial statements including adequacy of disclosure, and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatement, whether due to fraud or error. The establishment of internal control designed to provide reasonable assurance that the project has complied with those laws, regulations and funding agreements.
5. The project books of account provide the basis for preparation of financial statement, and reflect the financial transactions in respect of the activities maintained by Finance & Administrative Division (FAD) of NCDDS. This includes maintenance of adequate accounting records, vouchers, reports and supporting documentation for transactions are held in registered paper, files and electronic spreadsheets of both soft and hard copy.
6. The project accounting records and report are maintained and generated by Peachtree Accounting System.
7. The management is also responsible for ensuring that the funds were used only for the purposes of the project, for compliance with relevant laws, Funding Agreements. These responsibilities encompass the identification of applicable laws, regulations and funding agreement.

V. AUDITING STANDARDS

8. It is expected that the auditor will carry out the audit in accordance with CISA 240 "The Auditor's Responsibility to consider Fraud in an Audit of Financial Statements" and follow the below principles:
 - Ethical conduct: Trust, integrity, confidentiality and discretion are essential to auditing
 - Fair presentation: Audit findings, conclusions and reports reflect truthfully and accurately the audit activities
 - Professional care: Auditors must exercise care in accordance with the importance of the task they perform

9. The audit is conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) if the auditor is a supreme audit institution.

VI. AUDITOR RESPONSIBILITY

10. The auditor is responsible for forming and expressing an opinion on the project financial statements in accordance with the auditing standards. As part of the audit process, the auditor may request from the NCDDS-Finance & Administrative Division (FAD) written confirmation concerning representations made in connection with the audit.
11. In the conduct of the audit, the auditor is expected to:
- Plan and perform the audit in accordance with a risk-based framework to reduce risk to an acceptably low level, including risks of material misstatements in the financial statements whether due to fraud or error.
 - Design and perform audit procedures, evaluate and report the results thereof including any noncompliance with laws and regulations. Gather evidence and prepare working papers to properly document the evidence in support of the opinion given.
 - Prepare audit work program sufficiently extensive coverage of the project accounts. The audit coverage will consider the risk of material misstatement(s) as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.
 - Review and evaluate the system of internal controls in effect according to the established internal control standards, including internal control procedures to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records.
 - Interview officials of implementing partners to ensure full understanding the functioning of the internal control system.
 - Communicate matters of governance arising from the audit of financial statements.
 - Carry out tests to confirm compliance with the Funding Agreements, such as:
 - Funds have been used in accordance with the conditions of the MoU, LoA and CPA, with due attention to economy and efficiency, and only for the purposes for which the financing was provided,
 - Goods, works, and services financed have been procured and project expenditures have been incurred in line with the financing agreement and compliance with the NCDDS-Operation Policies and Procedures guidelines (OPP).
 - Assets and inventories procured from grant fund exist and there is verifiable ownership in accordance with the LoA, MoU, CPA and OPP guidelines.
 - All necessary supporting documents, records, and accounts have been maintained in respect of project activities,
 - Review the activities of the project account including deposits received, payments made, interest earned, exchange rates used, and reconciliation of period-end balances, and
 - Review financial reports submitted to the development partners and assess the methods used to compile the reports, ascertain that the information given in the reports accurately reflect the underlying records, documents and books of accounts, and verify that the information in the reports reconcile with the financial statements.

It is expected that the auditor will obtain an understanding of the design and operation of internal control over compliance with requirements that could have a direct and material financial effect on the funding agreements.

VII. AUDIT SCOPE AND REPORTING

12. The auditor is required to deliver an audit report in the English language comprising:

A. AUDITOR’S OPINION ON THE FINANCIAL STATEMENTS

An auditor’s opinion providing reasonable assurance over the audited project financial statements, including the notes thereto and supplementary statements.

B. AUDITOR’S OPINION ON COMPLIANCE

An auditor’s opinion made in accordance with “ISAE 3000”(Assurance Engagements other than Audits or Reviews of Historical Financial Information) providing reasonable assurance that the (i) proceeds of the fund were used only for the purpose of the project, and (ii) project was in compliance with the covenants in the Funding Agreements (MoU, Loa and PCA) and NCDDS Operation Policies and Procedures.

C. AUDITED PROJECT FINANCIAL STATEMENTS

The monthly project financial statements with comparative presentation:

UNDER THE MODIFIED CASH-BASIS OF ACCOUNTING

- Statement of Cash Receipts and Payments, and General Ledger
- Statement of Budget vs Actual Expenditure
- Statement of Cash Flows
- Supplementary Schedules
 - Statement of Bank Account Reconciliation
 - Summary Statement (Cover Report)
 - Statement of Advance and Outstanding Cheque
- Notes to the Financial Statements

D. MANAGEMENT LETTER

A management letter providing the auditor’s observations and findings on accounting records, systems and internal controls that were examined during audit, including:

- Weaknesses and issues in accounting and internal control systems, including irregularities in the use of funds, ineligibility of expenditures, and procurement-related weaknesses and issues.
- Auditor’s assessment of the causes, and recommendations to improve or rectify the identified weaknesses and issues.
- NCDDS’s responses to the weaknesses and issues including explanations of the causes, proposed action plan to address the concerns, and the timeline for completion.
- Status of weaknesses and issues identified and reported in prior periods.
- Any continuing or persistent issues and weaknesses, and follow-up actions taken.
- Any matters the auditor considers pertinent or significant as to impact implementation.

13. The period of audit and estimate expense

Project	Audit Period	Estimate Expense
Local Governments and Climate Change (LGCC)	Fiscal year 2022 and 2023	2022: 110,000 2023: 498,000

Upgrading the climate investment information database of sub-national	01-Jul.-2022 to 31-Dec.-2023	91,000
GCF Readiness and Preparatory Support	01-Feb. 2023 to 08-Jan. 2024	210,000

14. NCDD-S will be the recipient of the Audit Reports and will be responsible for following up on findings in the audit report with ensuring that the standard of audit is acceptable. The NCDD-S will be responsible for contracting the audit services in accordance with this term of reference.

The Audit reports:

- Prepared in separate of each project (in English)
- Submitted to NCDDS on or before 3rd week of February. 2024.
- 10 copies of original Financial statement and the associated audit reports

VIII. AUDITOR QUALIFICATIONS

15. The auditor must satisfy the following minimum requirements:

- A legal entity in Cambodia with business license granted by appropriate authority.
- A member of a professional body affiliated with the International Federation of Accountants or the International Organization of Supreme Audit Institutions.
- Have adequate relevant professional and educational qualifications, or able to provide audit staff with adequate qualifications, experience, and competence.
- Technically competent and able to conduct audit in line with the auditing standards.
- Objective and independent from the project, its staff, and activities, and from all aspects of management or financial interests of the NCDDS.
- Possesses proven track record in financial audit of public sector projects, or audits of similar nature, type, and complexity, or donor-funded projects.

IX. OTHER MATTERS

16. The auditor is entitled to unlimited access to all legal documents, correspondences, project preparation and supervision reports, reports of reviews and investigations, financial management assessment reports, and any other information and explanations associated with the project and considered necessary to facilitate the audit. The auditor may also obtain written confirmation of amounts disbursed from the development partners.

17. The auditor is encouraged to meet with the NCDDS staff to discuss audit-related matters including inputs to the audit plan.

18. Prior to the start of audit work, the auditors shall be required to consult and present the audit schedule with the NCDDS, project management team. Final exit conference will be held with the project management of the NCDD-S. The exit conference gives the auditor an opportunity to brief on its major findings, its recommendations for future improvements and 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 closing meeting will be part of audit workpapers.