

ANNEX II - TERMS OF REFERENCE (TOR)

ANNUAL EXTERNAL INDEPENDENT AUDIT OF THE FINANCIAL STATEMENTS OF MEKONG RIVER COMMISSION SECRETARIAT FOR THE PERIOD JANUARY TO DECEMBER 2018

1. BACKGROUND

The Mekong River Commission (MRC) was established by the 1995 *Agreement on Co-operation for the Sustainable Development of the Mekong River Basin*, between the governments of Cambodia, Laos, Thailand and Viet Nam. In accordance with this Agreement, the mission of the MRC is: “To promote and coordinate sustainable management and development of water and related resources for the countries’ mutual benefit and the people’s well-being by implementing strategic programmes and activities and providing scientific information and policy advice.”

The Mekong River Commission (MRC) receives funds from its four-member states and some Development Partners (DPs), to whom it is accountable, and allocates these funds according to agreements with the DPs, endorsed by the MRC Joint Committee in support of sustainable human development programmes in the Mekong River Basin. *The audit will cover the MRC’s accounts for the year ending 31 December 2018* including the relevant internal control mechanisms.

All accounts and records of the MRC Secretariat are located at 184 Fa Ngoum Road, Unit 18, Vientiane, Lao PDR (OSV).

Detailed information about the MRC organizational structure can be found on our website: <http://www.mrcmekong.org/about-the-mrc/>

The annual audit will be covered for this fiscal year from 01 January 2018 to 31 December 2018.

2. PURPOSE

This TOR will be part of the contract to be signed with the auditing company.

The objective of the audit of the project financial statements is to enable the auditor to express a professional opinion on the Mekong River Commission Secretaries financial position and of the statement of cash receipts and payments for the accounting period specified above. The MRCS’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 objective of the MRCS.

The external audit service is also expected to go beyond giving assurance on the accounts to express an opinion on management’s assertions that they comply with laws, regulations and financing agreements and that resources are managed in accordance with:

- The MRC financial regulations, rules, practices and procedures;

- The terms and conditions of the Development Partners' agreements and the project document, including the delivery of planned outputs, the management and implementation arrangements, and the provisions for monitoring, evaluation, and reporting;
- The MRC procedures and standards for accounting, financial management and reporting of MRC projects; and
- Internationally accepted accounting standards.

3. AUDIT SCOPE

The audit will be conducted in accordance with International Standards on Auditing. 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 based on the following.

(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 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 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) 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.

(e) 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.

(f) 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 complying with International Standards on Auditing, the auditor is expected to pay attention to the following matters:

- Financial transactions reflected in the financial statements and reports have been prepared in accordance with the rules and regulations, the budgetary provisions and other applicable directives of the Development Partners and MRC;
- Financial accounting, monitoring and reporting are appropriate and in accordance with Development Partners and MRC's regulations;
- Management structures, including internal controls, monitoring and record-keeping mechanism, e.g. concerning financial decisions and authorization of expenditure are adequate; and
- Equipment use, and controls are appropriate and in accordance with the MRC's and Development Partner regulations
- The external auditor shall take responsibility to review the adequacy of policies and procedures in order to consider any corruption found during the audit.
- The external auditor also takes responsibility to consider any fraud in the audit, the primary responsibility for the prevention and detection of fraud within MRC. In reviewing and providing opinion on internal control, it is expected that the external auditor will follow ISA 240 "The Auditor's Responsibility to consider Fraud in an Audit of Financial Statements."

The following MRC reports covering the period from **1 January 2018 to 31 December 2018** will form the basis of the audit:

- Consolidated Financial Statements
- Financial Report on Basket Fund
- Financial Report on Earmark Fund
- Financial Report on MRC Administrative Reserve Fund

4. AUDIT DUTIES AND RESPONSIBILITIES

The audit procedures should include, but not be limited to:

- Verify that the financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standards ("Financial Reporting under the Cash Basis of Accounting").
- Review accounting controls, general controls, internal accounting controls, certification and approval processes.
- Review the provision of funds from MRC in response to requests for advances of funds and requests for direct payment by MRC.
- Conduct the auditing analyses of foreign exchange gains and losses.
- Review the treatment and accounting for Cash in Hand and at Banks, Cash in Transit.
- Review the validity of expenditures and corresponding documentation, disbursed from MRC Secretariat or from the Imprest accounts.
- Review whether the expenditures made by MRC are in accordance with project activities, work plans and budgets, and for compliance with MRC's financial rules, regulations, practices and procedures.
- Review whether the incomes are properly accounted for and in accordance with Development Partners' agreements.

- Review financial reporting with special emphasis on the process, timeliness and ability to produce the reports as well as on accuracy.
- Review whether financial accounting, monitoring and reporting were undertaken in accordance with Development Partners' and MRC's requirements.
- Review if the procurement, use, control and disposal of non-expendable equipment are in accordance with Development Partners' and MRC's requirements.
- Review if an appropriate management structure and the procedures for the staffing, internal controls and record-keeping systems are maintained and if they are timely, adequate and meet the needs of the project in an efficient and effective manner.
- Channeling of funds and verification of supporting documentation, vouchers etc. and checking complicity with the MRC accounting rules and regulations in the field.
- The auditor must ensure that a "Management Response" is given to matters raised by the auditor in the "Management Letter".
- Provision for "Interim Audits" during the accounting year, not just "Final Audits" after the respective year-end, should be included in the "Audit Methodology and Work Plan".
- Ensure the reasonability of "Management and Administration Fees" and that other charges to the other accounts are not of the kind that are already included in these fees.

5. REPORTS

Six (6) auditor's reports for *paper-based and electronic* are required for:

- The auditor will issue an audit opinion on the financial statements for Basket Fund and Earmark Fund.
- In addition to the audit opinion, the auditor will also report, either in the audit report or in the report to management for each fund:
- The overall financial statements, which include statement of assets and fund balance and income and expenditure, of MRC for the year ending 31 December 2018 (6 *original copies*). The notes to the financial statement will explain how the figures reconcile with the figures provided for in the Development Fund Status Report. One note will clearly explain the cash funds received during the year.
- Each of the auditor's reports shall be accompanied by a management letter which includes any comments, observations and recommendations on any weaknesses identified during the audit as follows:
 - Management's assertion that they complied with the laws, regulations and that they maintained effective internal control systems;
 - Specific weaknesses in internal control systems, the audit procedures to be followed to address for the weaknesses to resolve and eliminate them;
 - Progress towards improvements based on comparison with the findings, conclusions and recommendations of the last year's audit; and
 - The management letter should always be issued whatever circumstances.

A written report on the auditors' work shall be provided by the auditing firm on completion of the audit together with the final invoice to the MRC. This report will include an overview of the auditor's staff having worked on this assignment and overview of the auditor's activities.

6. METHODOLOGY AND TIMETABLE

The audit is to be conducted in accordance with the professional judgment of the auditors, and the methodology should be addressed with appropriate reference to:

- The International Standards on Auditing (ISA), namely the standards on auditing promulgated by the International Federation of Accountants; and
- Generally accepted common auditing standards in the four MRC Member Countries.

The final auditor's opinion on the financial statements and management letter should be received by the MRCS on or before **15th March 2018**.

- The auditor's opinion and management letter must be submitted in English **to** the MRC Secretariat Office in Vientiane (OSV); and
- Each audit must begin no later than 18 January 2019. The MRCS will provide access to all relevant documents and files on the projects in order to enable the auditors to conduct the audit in an efficient manner.

The Auditors are expected to submit a clear methodology and work plan for this audit.

7. EXIT CONFERENCE

Upon completion of the field work, the auditor shall hold a closing or exit conference with senior 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 if management concurs with the audit findings. The auditor will document exit conference for inclusion in the audit work papers.

8. AUDITORS QUALIFICATIONS AND EXPERIENCE

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 MRCS as technically competent, independent and able to comply with International Standards on Auditing (ISA), and have adequate quality control to ensure compliance with ISA and other requirements.
- Experience in financial auditing in the public sector.
- Experience in auditing in the region, MRC member countries and Lao PDR.

- Experience in financial auditing of government 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 an in-depth experience in conducting audits of donor funded projects and project financial statements.
- Auditors should have experience in auditing in the region with relevant language skills.
- Auditors should have no conflict of interests in relation to the project and its activities.

For the Project Manager/Audit Manager

- 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 Senior Auditor

- 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 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.

Furthermore, in general each auditor should be independent and free from conflicts of interest in the responsibilities accorded to them. They should immediately declare if there is any possible conflict of interest with the entity audited (MRC).

9. GENERAL

The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit including legal documents, 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 project finance team.