



REPÚBLICA DEMOCRÁTICA DE TIMOR LESTE
DIRECÇÃO GERAL DAS OBRAS PÚBLICAS
DIRECÇÃO NACIONAL DA ESTRADAS PONTES E CONTROLO DE CHEIAS
PROJECT MANAGEMENT UNIT



Ministério das Obras Públicas

26 February 2021

Mr. VENCESLAU QUINTÃO GUTERRES

Coordinator

Integrated Financial Management and Information Systems

Ministry of Finance

REFERENCE NO. : 152 / PMU / II / 2021

SUBJECT : **Invitation to Submit Expression of Interest and Terms of Reference
for
Independent Auditor**

Dear Mr. Venceslau,

Forwarding herewith is the invitation to Submit Expression of Interest and Term of Reference (with e-file) for the position of International external Auditor **for advertisement and uploaded on MoF website.**

Thank you in advance for your kind assistance.

Very truly yours,

SIDONIO TRINDADE DA COSTA FREITAS
Project Manager



Cc - H.E. Arq. Salvador Eugénio Soares dos Reis Pires, Minister of Public Works
Mr. Rui Hernani Freitas Guterres, Director General ofr Public Works
Mr. João Mario Gama de Sousa, Director, DRBFC



REQUEST FOR EXPRESSIONS OF INTEREST

EXTERNAL AUDITOR – AUDIT OF ANNUAL PROJECTS FINANCIAL STATEMENT

1. The Democratic Republic of Timor Leste has received financing from the Asian Development Bank (ADB), the World Bank (WB) and the Japan International Cooperation Agency (JICA) hereinafter called the "Banks", in the form of "loans" toward the cost of the Road Upgrading Projects and intends to engage the services of an External Auditor to conduct audit of annual projects financial statement.
2. The external audit of projects financed through loans from the Asian Development Bank (ADB), World Bank (WB) and Japan International Cooperation Agency (JICA) is essential to ensure that the proceeds of any loan made are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.
3. The Ministry of Public Works, Transport and Communications now invites interested and eligible Firms to provide an Expression of Interest demonstrating that the Firm possesses the relevant qualifications and experience to perform the services. The Expression of Interest should consist of documentary evidence clearly defining company profiles/core business descriptions, descriptions of similar assignments (at least three similar assignments should be detailed) and experience in similar conditions (developing countries in particular the Asia Pacific Region). It may include qualifications of the Firms own Senior Management Staff relevant to the assignment.
4. Consultants may associate to enhance their qualifications. If Consultants wish to express interest as an Association, then they must clarify the nature of the proposed Association – i.e. whether it is a Joint Venture or a Sub-Consultancy. Please note in the case of a Joint Venture, the Consultants shall send information for each member, as a separate assessment will also be done for each firm in the proposed Joint Venture.
5. A Firm will be selected using the Selection Based on Consultants' Qualifications (CQS) method for Procurement.
6. Expressions of Interest, including documentary evidence on the above requirements shall be delivered to the address below by **3-00pm** (Timor Leste time) **15th March 2021**. Firms should take into account timing of couriered documents to Timor Leste. E-mail submissions will be accepted. Expressions of Interest should be clearly marked "*Expression of Interest for External Auditor – Audit of Annual Projects Financial Statement*".
7. Address for submission of Expression of Interest:

Attention : Mr. Sidonio Trindade da Costa Freitas, Project Manager
Email : pmu_adb@yahoo.com
Address : Project Management Unit
Ministry of Public Works
Av. Martires da Patria, Mandarin
Dili, Timor Leste

TERMS OF REFERENCE

External Auditor

AUDIT OF ANNUAL PROJECTS FINANCIAL STATEMENTS

A. Introduction

1. The external audit of projects financed through loans from the Asian Development Bank (ADB), World Bank (WB) (the Banks) and Japan International Cooperation Agency (JICA) is essential to ensure that the proceeds of any loan made, guaranteed or participated in by the Banks and JICA are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency.
2. The primary objective of the audit is to enable the auditor to form an independent opinion on the projects' financial statements and to express clearly in a written report whether or not the annual project financial statements present fairly, in all material respects, the financial position, results of operations and cash flows for the period in accordance with agreed project accounting policies.
3. The audit services are required for the loan projects listed below:

ADB Assisted Projects:

- 2857-TIM and 2858-TIM(SF): ROAD NETWORK UPGRADING PROJECT (ONLY FOR 2017)
- 3020-TIM and 3021-TIM (SF): ROAD NETWORK UPGRADING SECTOR PROJECT (FY 2020, 2021, 2022)
- 3181-TIM: ROAD NETWORK UPGRADING PROJECT / ADDITIONAL FINANCING (FY 2020, 2021, 2022)
- 3341-TIM and 3342-TIM: ROAD NETWORK UPGRADING SECTOR PROJECT / ADDITIONAL FINANCING (FY 2020, 2021, 2022)
- 3456-TIM: DILI TO BAUCAU HIGHWAY PROJECT (FY 2020, 2021, 2022)
- 3643-TIM and 3644-TIM : BAUCAU TO VIQUEQUE HIGHWAY PROJECT (FY 2020, 2021, 2022)

ADB –Grant Project

- Grant 0404-TIM: ROAD NETWORK UPGRADING SECTOR PROJECT (ADDITIONAL FINANCING) (FY 2020, 2021, 2022)
- 0504-TIM: ROAD NETWORK UPGRADING PROJECT (ADDITIONAL FINANCING- EUROPEAN UNION) (FY 2020)

WB Assisted Projects:

- IBRD Loan 8290-TL and IDA Credit 5303-TL and Loan 6012-TL: ROAD CLIMATE RESILIENCE PROJECT (FY 2020, 2021, 2022)
- IDA Credit 6488-TL: Timor Leste Branch Road Project (FY 2021 and 2022)

JICA Assisted Projects:

- TLS-P1 - NATIONAL ROAD NO. 1 UPGRADING PROJECT (FY 2020, 2021, 2022)

Audit report for the Bank portion of the loan shall be independent of the Government portion. Audit report shall be prepared independently for each project.

4. The audit engagement will be extended for a three (3) years term covering financial reporting of 2020, 2021 and 2022. The first audit review will be for the period 1 January 2020 to 31 December 2020.
5. The next audit engagement is expected to begin no later than **12 April 2021** and the signed audit reports together with the management letters are required to be submitted to the Executing Agency (EA) and the Banks/JICA on or before end June 2021.
6. For the succeeding years, the audit engagement is expected to begin no later than **1st April** after the fiscal year and the signed audit reports together with the management letter are required to be submitted to the Executing Agency (EA) and the Banks/JICA by on or before end June after the fiscal year.

B. Background

7. The detailed backgrounds of the projects are provided in Annex 1 (Loan Agreements posted in Banks website) and Annex 2 (Project Administration and Project Operation Manuals posted in Banks website).
8. In accordance with the loan agreement, the Banks and JICA require the project financial statements to be audited by an independent auditor whose qualifications, experience and terms of reference are acceptable to the Banks and JICA. The EA will submit to the Banks and JICA certified copies of such audited accounts and financial statements and the report of the auditors relating thereto, all in English language; and furnish to the Banks and JICA such other information concerning such accounts and financial statements and the audit thereof as the Banks shall from time to time reasonably request.

C. Employing Authority or Entity

9. The Council for the Administration of the Infrastructure Fund (CAFI) is the EA. The Ministry of Public Works (MPW) (formerly Ministry of Development and of Institutional Reforms (MDIR) is the Implementing Agency (IA). The MPW through the Project Management Unit of the Directorate for Roads, Bridges and Flood Control (PMU/DRBFC), implements the infrastructure components of the project, hire implementation consultants, as required, maintain an existing PMU which will be responsible for the day-to-day implementation of the project, including (i) preparation of an overall implementation plan and annual budgets; (ii) overall interagency coordination; (iii) management of the bidding processes; (iv) management of the capacity development activities; (v) project financial management; (vi) project safeguards plan implementation; (vii) consolidation, review and submission of regular progress and financial reports to the Banks and the MPW; and (viii) monitoring and evaluation of project outputs and results.
10. Government funding for the project will be provided from the government's Infrastructure Fund. MPS will provide an additional level of review of payments, including referral of payment vouchers to the National Development Agency (ADN) for validation. The ADN has been established by the government to provide independent assessments of the quality of project implementation as well as the appropriateness of stage payments in light of actual progress.
11. Management is responsible for preparing and fairly presenting the project financial statements, and for maintaining sufficient internal controls to ensure that the financial

statements are free from material misstatement, whether due to fraud or error. In addition, management is responsible for ensuring that funds were used only for the purpose(s) of the project, for compliance with financial covenants (where applicable), and for ensuring that effective internal controls, including over the procurement process, are maintained. *In this regard, management must:*

- (i) *Prepare and sign the Audited Project Financial Statements.*
- (ii) *Prepare and sign a Statement of Compliance.*

12. Management must include the following in the Statement of Compliance:

- (i) *That project financial statements are free from material misstatements including omissions and errors, and are fairly presented;*
- (ii) *That the borrower or executing agency has utilized the proceeds of the loan only for the purpose(s) of the project;*
- (iii) *That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s) (where applicable);*
- (iv) *That the designated and advance fund procedure, where applicable, has been operated in accordance with the Asian Development Bank's (ADB) and World Bank Loan Disbursement Handbook;*
- (v) *That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE), where applicable, for reimbursement of eligible expenditures incurred and liquidation of advances provided to the designated and advance account; and*
- (vi) *That effective internal control, including over the procurement process, was maintained.]*

D. AUDIT DELIVERABLES

i. Audited Project Financial Statements

13. An auditor's opinion providing reasonable assurance over the project financial statements, and project financial statements comprising the following:

Table 1: Content of the Project Financial Statements

For Cash-Based Financial Statements	For Accrual-Based Financial Statements
A statement of cash receipts and payments	A statement of financial position (balance sheet)
A statement of budgeted versus actual expenditures	A statement of financial performance (income statement)
A statement of imprest account (where applicable)	A statement of cash flows
A summary statement of expenditures (where applicable)	A statement of changes in net assets/equity (where applicable)
Significant accounting policies and explanatory notes	A statement of imprest account (where applicable)
Any additional schedules agreed (e.g., a summary of assets)	Significant accounting policies and explanatory notes
	Statement of budgeted versus actual expenditures
	Summary statement of expenditures (where applicable)
	Any additional schedules agreed

ii. Reasonable Assurance Opinion over the Use of Loan Proceeds and Compliance with Financial Covenants

14. The auditor will provide a reasonable assurance opinion following *[ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" or ISSAI 4200 "Compliance Audit Related to the Audit of Financial Statements"]* for the following confirmations provided by Management in the Statement of Compliance:

- (i) That the proceeds of the loan were used only for the purpose(s) of the project; and
- (ii) That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s), where applicable.

15. The auditor will outline the degree of compliance for each of the financial covenants in the loan agreement.

iii. Management Letter

16. The auditor will provide a management letter containing, at a minimum, the following:

- (i) Any material weaknesses in the accounting and internal control systems that were identified during the audit; including any irregularity in the use of the Designated or advance fund and statement of expenditures (SOE) procedures (where applicable);
- (ii) Any identified internal control weaknesses related to the procurement process such as, over the bidding, evaluation and contract management domains;
- (iii) Recommendations to rectify identified weaknesses;
- (iv) Management's comments on the audit recommendations along with the timeframe for implementation;
- (v) The status of significant matters raised in previous management letters;
- (vi) Matters that have come to the auditor's attention during the course of the audit which have a significant impact on project implementation; and
- (vii) Details of any ineligible expenditure¹ identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreement(s); (ii) expenditure not allowed under the terms of the legal/financing agreements; (iii) expenditures incurred in violation of applicable government regulations.

iv. Specific Considerations

17. The auditor will, during the course of the audit, pay particular attention to the following:

- (i) The use of external funds in accordance with the relevant legal and financing agreements;

¹ If the auditor reports any ineligible expenditure in the management letter, the details of the findings should include funding source to which the observation relates.

- (ii) The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) The maintenance of proper books and records;
- (iv) The existence of project fixed assets and internal controls related thereto;
- (v) Where the audit report has been issued under ISA 800 or ISSAI 1800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the project financial statements are prepared in accordance with a special purpose framework and that, as a result, the project financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading;
- (vi) Where reasonable assurance has been provided using ISAE 3000 or ISSAI 4200, the assurance report must contain, among others:
 - A statement that the engagement was performed in accordance with ISAE 3000 or ISSAI 4200;
 - Subject matter;
 - Criteria for measurement;
 - A summary of the work performed; and
 - The auditor's conclusion.
- (vii) On the Designated or Advance fund procedure (where applicable), audit procedures are planned and performed to ensure (a) the designated or advance account (and any sub-accounts) has been managed in accordance with World Bank and ADB's Loan Disbursement Handbook, (b) the cash balance of the designated and advance account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the designated and advance account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the designated and advance account (and any sub-accounts) comply with disbursement percentages stipulated in the loan agreement;
- (viii) Adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the designated or advance account (where applicable);
- (ix) On the SOE procedure (where applicable), audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with World Bank and ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan agreement, and (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement; and
- (x) Any weaknesses in internal controls over the procurement process.

18. All reports must be provided in the English language.

19. Public disclosure of the project financial statements, including the auditor's opinion on the audited project financial statements, will be guided by Public Communications Policy. After review, the Banks/JICA will disclose the audited project financial statements and the opinion of the auditor on the audited project financial statements no later than 14 calendar days of the Banks/JICA confirmation of their acceptability by posting them on the Banks/JICA website. The management letter and the additional auditor's opinions will not be disclosed².

E. Audit Scope

16. The list of issued outlined in this section is not exhaustive, nor should all matters be addressed in every project. The scope and detail of an audit are likely to be unique for each project.
17. **Auditing Standards and Program.** The audit will be carried out in accordance with the agreed auditing standards (see Terms and Definitions), including professional or general standards, standards of fieldwork and reporting standards.
18. The audit program will consider the risk of material misstatements resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.
19. **Accounting Policies and Changes.** The auditor should comment on the project's accounting policies, and confirm the extents to which the agreed project accounting policies (see Term and Definitions) have been applied. In particular, the auditor should note the impact on the audited project financial statements arising from any material deviations from the agreed accounting standards. The auditor should also comment on any accounting policy changes, either during a financial year or from one year to another.
20. **Compliance with Financial Covenants.** The auditor will confirm compliance with each financial covenant contained in the legal documents for the project (see Terms and Definitions). Where present, the auditor should indicate the extent of any non-compliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned.
21. **Compliance with Financial Assurances.** The auditor will confirm compliance with all financial assurances contained in the legal documents for the project (see Term and Definitions). Where present, the auditor should indicate the extent of any non-compliance by comparing required and actual performance of the borrower in respect of the Banks requirements for the financial year concerned.
22. **Designated and Advance Account (or Special Account).** The Designated and Advance Account reflects: (i) deposits and replenishment received from financiers; (ii) payments substantiated by withdrawal applications; and (iii) the remaining balance at financial year-end. The auditor will examine whether the Designated or Advance Account has been maintained in accordance with the provisions of the relevant financing agreements.
23. The auditor must form an opinion on whether the Designated and Advance Account was used in compliance with required procedures, and the fairness of the presentation of Designated and Advance Account activity and the year-end balance.

² This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

The auditor should examine the eligibility and correctness of financial transactions during the period under review, account balances at the end of the period, the operation and use of the Designated and Advance Account in accordance with the financing agreement, and the adequacy of internal controls for this particular disbursement mechanism.

24. **Funds Account Activity Statements.** The auditor will audit all submitted Fund Account Activity Statements used as the basis for the submission of claim and credit withdrawal application to the Banks, and reporting on progress. These expenditures should be compared for project eligibility with the financing provision. Where ineligible expenditures are identified as having included in the claim and withdrawal application, this should be reported separately. Also to review the accuracy and completeness of the activity statements submitted to all development partners and it's consistency with the submitted annual work plan.
25. **Statement of Expenditures (SOEs).** The auditor will audit all SOEs used as the basis for the submission of credit withdrawal application to the Banks. These expenditures should be compared for project eligibility with the relevant financing agreements (and with reference to the RRP and other project documents for guidance when considered necessary). Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. The annual audit report should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under SOE procedures, and the extent to which the Banks can rely on those SOEs as a basis for credit disbursement. Annexed to the Annual Project Account (APA) should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.
26. **Record Keeping.** The auditor will pay particular attention to whether all necessary supporting documents, records and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the audited project financial statements. This will include:
 - i. Computation and recalculation, including checking the mathematical accuracy of estimates, accounts or records;
 - ii. Reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents;
 - iii. Physical observation, including inspecting or counting tangible assets, such as materials, inventory, land buildings, property or equipment;
 - iv. Confirmation, including directly confirming balances or transactions with external third parties, such as cash balances, accounts receivable or account payable;
 - v. Sampling, including vouching or examining supporting documentation to determine if balances are properly stated; and
 - vi. Tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

27. **Internal Control Systems.** The auditor will assess the adequacy of the project financial management systems, including internal controls, including whether:
- i. proper authorizations are obtained and documented before transactions are entered into;
 - ii. accuracy and consistency are achieved in recording, classifying, summarizing and reporting transactions;
 - iii. reconciliations with internal and external evidences are performed on a timely basis by the appropriate level of management;
 - iv. balances can be confirmed with external parties;
 - v. adequate documentation and an audit trail is retained to support transactions;
 - vi. transactions are allowable under the agreement governing the project;
 - vii. errors and omissions are detected and corrected by the project personnel in the normal course of their duties, and management is informed of recurring problems or weaknesses.
 - viii. management does not override the normal procedures and the internal control structure; and
 - ix. assets are property accounted for, safeguarded and can be physically inspected.

Legislative Compliance

28. The auditor will ensure that all project expenditure has been executed in line with the laws and regulations that govern public funds of Timor-Leste. Where there are cases of non-compliance, these should be reported through the management letter.

G. Statement of Access

29. The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices and any other information associated with the project and deemed necessary by the auditor.

H. Independence

30. The auditor will be impartial and independent from any aspects of management of financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationship with any senior participant in the management of the entity. The auditor must disclose any issues or relationship that might compromise their independence.

I. Auditor and Audit Staff Competence

31. The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards (see Terms and Definitions). The auditor should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake.
32. To this end, the auditor is required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.
33. It is also the responsibility of the auditor to maintain up to date indemnity insurance to undertake this assignment. The auditor must provide evidence of this as part of the proposal submitted for this audit assignment.

J. Submission of Proposal and Work Plan

The auditor is to submit a work plan to provide the audit services described in this letter. This work plan should address, among others things:

- the extent (if any) that you would not conform to the agreed auditing standards (see Terms and Definitions) and indicate any alternative standards to which you may (be required to) conform;
- whether the audit would be conducted as a completed audit (i.e., will the auditors carry out their audit after financial year-end, when the books of account are, or are being , closed)
- whether an audit carried out after financial year-end would be supplemented by one or more interim audits during a financial year. The principal purpose is to test ongoing systems and internal controls, and to relieve pressure on the audit of the entity and on the auditor at year-end.
- the manner in which the auditor proposes to address any statutory requirements relating to audit (e.g., certifications relating to shareholders' equity required under the companies' act) or to which they may be implicitly bound by contractual obligations of the employer (e.g., Banks auditing requirements, Statement of Expenditures, Designated and Advance Accounts);
- procedural requirements for certain verification procedures (e.g., checking of stocks, inventories, assets, etc.);
- specific actions required on the part of the employer (e.g., access to computer systems and records, disclosures);
- discussions before signing the opinion and report on any matters arising from the audit, and with whom these discussions would be held;
- demonstrate auditor competence through the provision of brief CVs of audit team;

- demonstrate what other similar audits the auditor has been engaged for suitability;
- describe the audit approach to address the objectives of the TOR;
- timing of audit activities (including interim and/or final audit and attendance at stock takes, fixed assets verification as required);
- evidence that professional indemnity insurance will be in place for the duration of the assignment;
- an analysis of staff levels involved, hours of involvement and total estimated cost to complete the annual audit; and
- timetable for provision of opinions and reports.

K. Terms and Definitions

34. Refer to Annex 3, which defines the terms used in this document.

Terms and Definitions

1. This section defined the terms used in this document.
- A. Audited Project Financial Statements (APFS)**
 2. Audited Project Financial Statements should include all project-related expenses, irrespective of funding source. When the financial statements are prepared under the cash basis of accounting, they should, at a minimum, comprise of the:
 - i. Project Financial Statement (e.g., Statement of Receipt and Payments
 - ii. Notes to the Financial Statements; and
 - iii. Additional supplementary financial information, as agreed depending on the needs of the specific projects/sectors.
 3. Schedules to supplement the project financial statements, if applicable, may include the Imprest Account Statement and reconciliation, detailed summary of fixed assets or asset register, inventories, summary of long-term debts, and summary of accounts receivable and accounts payable. These schedules and other additional disclosures may be provided separately or incorporated in the Notes to the Financial Statements.

GUIDANCE: The APFS should include:

- a. a summary of funds received showing Banks funds, any co-financing and counterpart funds separately;
- b. a summary of expenditures shown under the main project components and by main categories of expenditures (as referenced in loan and appraisal documentation) for the year ending 31 December 20xx and cumulative expenditures on the project to date; and
- c. statement of fund balance as of 31 December 20xx.

B. Audited Entity Financial Statements

4. In cases where the executing and/or implementing agencies are separate legal entities, and where the entities' financial statements are subject to audit, in addition to the above requirement for the audit of the project financial statements, Banks also requires the submission of the annual audited agency financial statements for each executing agency and/or project implementing agency associated with the project. These entity level financial statements should be prepared in accordance with acceptable international financial reporting standards, or equivalent national accrual based financial reporting standards.
5. The purpose of this requirement is to allow the Banks to monitor the use of loan proceeds and to satisfy itself of the financial viability of the project and the executing or implementing agency.

C. Consolidated/Combined Financial Reporting

6. In some cases, where the project has a number of separate/distinct components implemented by one or more executing agency or implementing agency, Banks will accept a consolidated project financial statements.

7. Annual audited project financial statements may be incorporated with the independent entity's financial statements provided that: (i) the entity is established solely for the project, (ii) the project is of significance relative to the independent entity's operations, and (iii) the statements explicitly describe the financial status and performance of the project for current and previous years from the date of effectiveness. In this case, the entity financial statements, clearly reflecting project specific financial information, will suffice for submission.

D. Agreed Project Accounting Policies

8. "Agreed project accounting policies" with regard to preparation of Annual Project Financial Statements, means:
- [Option A: Cash-based International Public Sector Accounting Standards] the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC),
 - [Option B: Accrual-based International Public Sector Accounting Standards] the accrual-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC),
 - [Option C: International Accounting Standards] the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) (also known as International Accounting Standards).
 - [Option D: National Accounting Standards] the accounting standards issued by [national authority].
 - [Option E: Modified National Accounting Standards] the accounting standards issued by [national authority], with the following modifications and/or additional disclosures.
 - [Option F: Specific Government Accounting Standards] describe these standards.

E. Agreed Auditing Standards

9. "Agreed auditing standards" means

[[Option A: Standards promulgated by the International Auditing and Assurance Standards Board (IAASB):

1. *International Standards on Auditing (ISA); and*
2. *International Standards on Assurance Engagements (ISAE).*

[Option B: Standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI):

1. *International Standards of Supreme Audit Institutions (ISSAI).*

[Option C: National Auditing Standards] the auditing standards promulgated by [national authority].

F. Financial Covenants Applicable to Projects

10. The Loan Agreement list a series of Covenants and Assurances that must be addressed to ensure the terms of the Agreement are being met (Annex 1).

G. Financial Assurances Applicable to Projects

11. The government of Timor Leste have assured the Banks/JICA that implementation of the projects shall conform to all applicable Banks policies including those concerning anticorruption measures. Safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents.