

JAPAN INTERNATIONAL
COOPERATION AGENCY

SOE Procedure for Japanese ODA Loans
Guidance for Borrowers

January 2011

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SOE Procedure

1. What is the SOE Procedure?

“SOE” stands for “Statement of Expenditures” which simplifies the supporting documents for requesting disbursements (The Standard SOE form is as per ANNEX 1). The SOE Procedure is not a distinct method of loan disbursement (disbursement procedures). It is used in conjunction with disbursement procedures such as the Special Account Procedure, or the Reimbursement Procedure and requires no submission of supporting documents (details of “supporting documents” are as per footnote 4 on page4).

2. When is the SOE Procedure applied?

SOE Procedure is applied when it is expected that there will be many expenditures and the amount of each payment will be small, resulting in the frequent adherence to laborious formalities, i.e. lots of invoices and payments receipts.

Normally, the Borrower submits all supporting documents for each payment, such as the receipt of payments and invoices, to JICA when requesting a loan disbursement. JICA checks the eligibility of each expenditure by checking the contents of the supporting documents submitted every time before disbursing the loan.

However, when using the SOE Procedure, individual loan disbursements are made on the basis of a summary of payments (Statement of Expenditures: SOE) which simplifies the supporting documents, without invoices and payment of receipts. The eligibility of the expenditures is confirmed once a year by an independent auditor. Thus, timely disbursement of the loan in accordance with the schedule for the implementation of the project becomes possible.

3. How to apply and implement the SOE Procedure?

(For easy reference, ANNEX 2 shows the required action by the Borrower at each stage of the project cycle when adopting the SOE Procedure)

(1) Application of the SOE Procedure

When the Borrower/Executing Agency wishes to apply the SOE Procedure, or when the adoption of the SOE Procedure is considered appropriate due to the nature of the project, JICA normally examines the use of the SOE Procedure at the time of Appraisal.

The main points to be confirmed when adopting the SOE Procedure are given below (See ANNEX 3 for details):

- Possibility of an independent audit: Whether an audit of the expenditure under Project by an independent and competent auditor is possible.
- Adequate fund management structure: Whether adequate accounting and the internal management capabilities of the Borrower and the Executing Agency are assured, the flow of funds related to payments for the project is clear, and the fund administration system has been established.

(2) Selection of an Auditor

When it is determined that the adoption of the SOE Procedure is appropriate, JICA requests the borrower to select an auditor and submit information about the auditor. In the meantime, JICA studies the adequacy of accounting and internal management capabilities of the Borrower and the Executing Agency.

Two types of auditors can be selected for an audit of SOE. One is a government auditing organization such as the Board of Audit, and the other is a private sector auditing organization that primarily conducts audits of financial statements. In both cases, the main criteria for determining eligibility for selection of an auditor are described in the three points below (See ANNEX 4. for details):

- Independence: The auditor is required to be independent from the organization being audited (the Borrower or the Executing agency) and the body selecting the auditor. In particular, when the auditor is a government auditing organization, JICA has to study the audit system in the country and confirm its legal and organizational independence.
- Expertise: In order to achieve the objectives of the audit, the capacity of the auditor to conduct the audit effectively and efficiently from an expert perspective is critical. This is determined on the basis of the size, reliability, experience with similar audits, and level of training of the auditing organization.
- Auditing Standards: In order to ensure the reliability of the audit, audits must be

conducted on the basis of Generally Accepted Auditing Standards (GAAS)¹. In addition to GAAS, an audit that complies with the International Standards on Auditing (ISA)² for a private sector audit firm or the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards for government auditing organizations is also acceptable.

As mentioned above, selection of a competent auditor is an essential factor in ensuring appropriate disbursement operations under the SOE Procedure. It is, therefore, preferable that an agreement be concluded by JICA and the Borrower regarding the auditor to be assigned by the time of the L/A³. In this respect, the L/A requires the Borrower to furnish JICA as soon as possible with an Engagement Letter signed by the authorized person of the selected auditor in which the auditor agrees to audit the records and accounts related to the applicable expenditures financed from the Loan and to submit to the Borrower a certified copy of the report of such an audit (example of an Engagement Letter as per ANNEX 5).

(3) Maintenance of records and accounts

The Borrower or the Executing Agency should maintain or cause to be maintained records and accounts that are adequate to reflect, in accordance with consistently maintained sound accounting practices, the expenditures financed from the proceeds of the Loan.

JICA may inspect the Borrower or the Executing Agency's status of such custody from time to time.

(4) Coverage of the SOE audits and the Auditor's Terms of Reference (TOR)

The objective of an SOE audit is ex post facto confirmation of the eligibility and conformity of the expenditure (or in case where a Special Account Procedure is applied, withdrawals from the special account) stated in the SOE prepared by the Borrower or the Executing Agency, and its compliance with the provisions and objectives of the Loan Agreement by an expert, independent third party auditor. In other words, the objective of an SOE audit is, by using an auditor, to confirm whether the expenditures entered in the relevant SOE (and special account

¹ GAAS is a general term that includes international auditing standards and the auditing standards of the relevant country. Specifically, the auditing standards commonly used in the relevant country are included in addition to the International Standards on Auditing (ISA), and the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards.

² International Standards on Auditing (ISA): Auditing standards for public accounting established by the International Federation of Accountants (IFAC).

³ In cases where reference to the name of the auditor in the L/A is not applicable, (e.g. selection of the auditor every year is required), it could be substituted by, for example, "an auditor acceptable to JICA" in the L/A.

withdrawals) are eligible for financing under the Loan Agreement and backed by necessary and sufficient supporting documents. In order for the auditor to understand the coverage of the SOE audit and the auditor's TOR, the Borrower is required to explain the objectives of any SOE audit as well as the objectives of the Loan Agreement, including non-eligible items for JICA's financing, to the auditor before conducting the audit. Especially for countries adapting the SOE Procedure for the first time, this consultation between the Borrower and the auditor is importantly necessary.

In this respect, the audit shall cover, but not limited to, the following points;

- Statement of Expenditures (SOE): The auditor is required to audit whether expenditures stated in the SOE, according to which the Borrower or the Executing Agency has requested disbursement, are eligible for financing under the Japanese ODA Loans and were used for the objectives of the Loan Agreement.
- Withdrawals from the special account: When the Special Account Procedure is used as the method of loan disbursement, the auditor is required to audit whether any withdrawal from the special account is eligible for financing under the Japanese ODA Loans and was used for the objectives of the Loan Agreement.
- Custody of supporting documents⁴: The auditor is required to confirm whether necessary and sufficient supporting documents for the SOE are being maintained by the Borrower or the Executing Agency or not.

In order to confirm that the audit of SOE has been promptly implemented, the Borrower or the Executing Agency is required to use the Standard Audit Report as per ANNEX 6.

(5) Required Action in response to the Auditor's opinion

In response to the Auditor's opinion other than an Unqualified Opinion, the Borrower or the Executing Agency is required to take appropriate action before submitting the Audit Report to JICA, as described in the following paragraph (6). The details of each audit opinion and the necessary action required of the Borrower and the Executing Agency are as per ANNEX 8.

⁴ Supporting documents are as follows:

Supporting documents	(1) Documents that prove the receipt of the funds by the contractor or consultants in exchange for the provision of goods or services	(2) Documents that can confirm the use of the funds
Acceptable examples	(i) Bill of Exchange, (ii) Receipt, (iii) Cancelled Bank Check, and (iv) Cancelled Demand Draft	Invoices

(6) Submission of an Audit Report to JICA

The Borrower or the Executing Agency is required to furnish JICA with a certified copy of the Audit Report by the auditor, as soon as it is available, and no later than 6 to 9 months from the end of each fiscal year in accordance with the stipulation of the Loan Agreement. The cases that the Audit Report shall be submitted are as follows.

[The Audit Report for the S/A Procedure]

Before the initial disbursement	no need to be submitted
After the initial disbursement, when there are no loan disbursement in that year and no withdrawals from the S/A account (confirmed by evidenced documents)	no need to be submitted
After the initial disbursement, when there are no loan disbursements in that year but withdrawals from the S/A account	must be submitted (*)

(*)As the SOE is not yet applied to JICA from the Borrower or the Executing Agency, the S/A account management shall be confirmed.

[The Audit Report for the Reimbursement Procedure]

When the contract between the Borrower or the Executing Agency and the Supplier(s) is unconcluded	no need to be submitted
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(7) Expenditures related to the Audit

When additional expenses arise due to the conduct of an audit, JICA usually considers including such expenses in the project costs as a part of the local currency portion (or the foreign currency portion if the auditor is not from the Borrower's country).

If there is a request from the Borrower, JICA also examines the possibility of making these expenses eligible for JICA's financing. Expenses are only made eligible for financing when the relevant additional expenses can be clearly distinguished from general administration expenses (For example, such a distinction would be difficult if the Board of Audit has been assigned as the auditor).

(8) Adjustment

In the event that the use of a specified amount of the Loan is not justified⁵ according to the certified copy of the audit report, the Borrower is required to refund this

⁵ Examples of an unjustified payment: no supporting documents were maintained or the payment was made for non-eligible items

amount to JICA or JICA will deduct this amount from the next disbursement⁶.

If the Borrower, in the opinion of JICA, has failed to perform its obligations related to the SOE Procedure, most of which are stated in 3. (2)~(6) above, JICA may, by giving notice to the Borrower, suspend in whole or in part the rights of the Borrower under the Loan Agreement until JICA has determined that such a failure has been fully remedied.

⁶ See the Standard L/A text for SOE Procedure (ANNEX 9). “(i) in the event that the use of a specified amount of the Loan is not justified according to the certified copy of the report of the audit referred to in paragraph (c) above, refund to JICA, upon the request of JICA, the unjustified amount.”

ANNEX 1 Standard SOE format

**STATEMENT OF EXPENDITURES
(SOE)**

Date:

Serial No.:

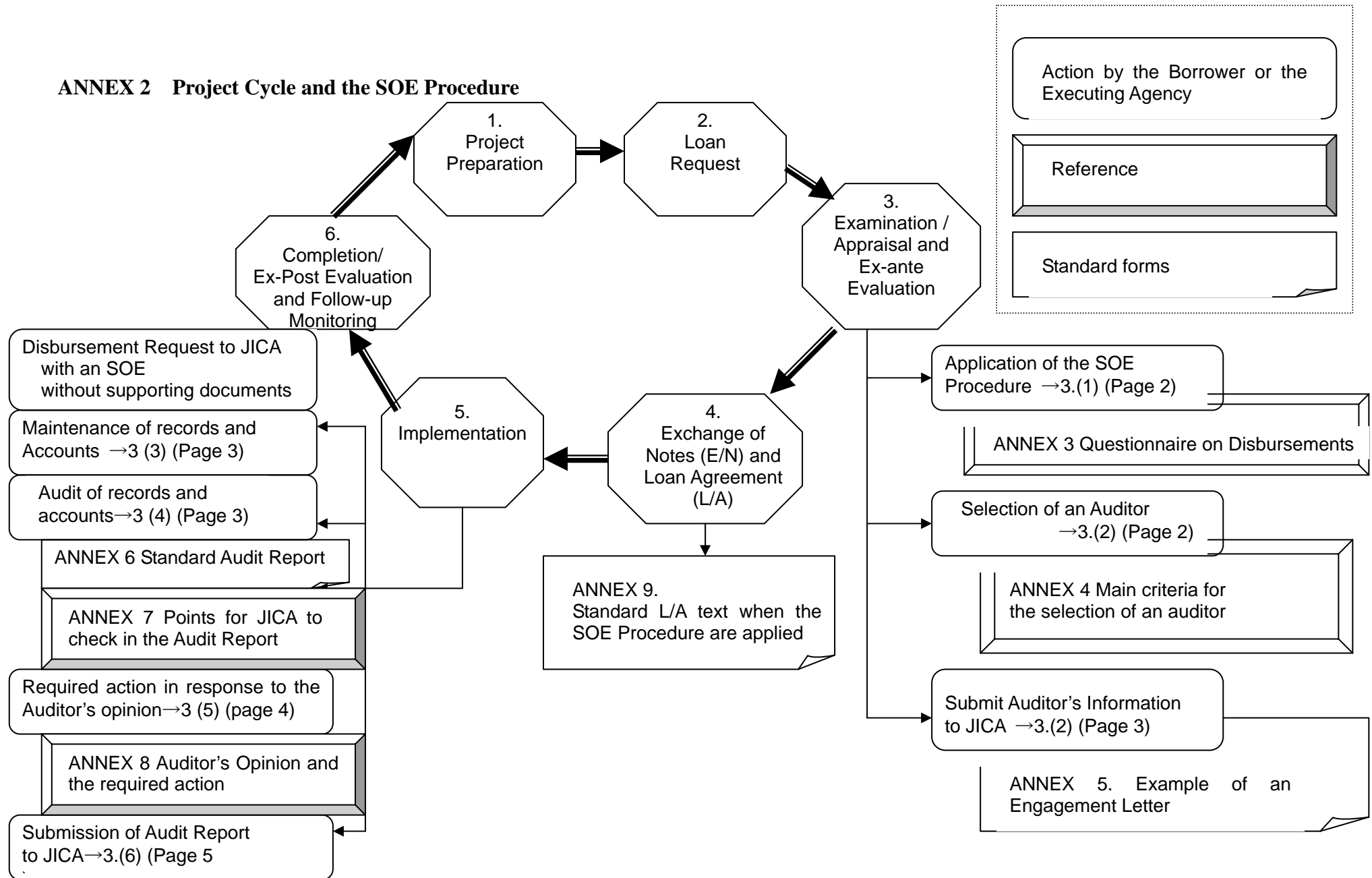
1. Trans- action	2. Purchaser	3. Supplier	4. * Nationality of the Supplier	5. Description of the goods and/or services	6. Origin	7. Contract Amount	8. Date of Payment	9. ** Amount of Payment	10. *** Category of Payment	11. **** Method of Procurement	12. Amount Applied for Financing	13. Disburse- ment Ratio
1.			<div style="border: 1px dotted black; padding: 10px;"> <ul style="list-style-type: none"> This SOE format is to be attached to the Schedules for the Reimbursement Procedure or the Special Account Procedure of the Loan Agreement and substitute for the Summary Sheet of Payment for the respective payment procedures attached to the brochures. This form can be modified according to the nature of the project, subject to the concurrence of JICA. SOE (Statement of Expenditures) and SSP (Summary Sheet of Payments) do not differ in format. However, the functions differ since the SOE can substitute for the supporting documents. </div>									
2.												
3. . .												
Total												

The undersigned certifies that the Supplier(s) and goods and/or services stated above are eligible under the Loan Agreement.

- * Note for 4 Nationality of the Supplier: Country in which the Supplier(s) is incorporated and registered.
- ** Note for 9 & 12 Amount of Payment: If not in Japanese Yen, state both the amount in the currency in which the Payment was made to the Supplier(s), and the converted amount(s) calculated in accordance with the Loan Agreement.
- *** Note for 10 Category of Payment: Advance payment, monthly payment or the final payment, etc.
- **** Note for 11 Method of Procurement: State the reason for the choice where this is other than international competitive bidding.

Authorized Signature

ANNEX 2 Project Cycle and the SOE Procedure



This questionnaire shows the criteria for the application of the SOE Procedure. JICA requires the answers to the following questions from the Borrower or the Executing Agency when the Borrower or the Executing Agency wishes to apply the SOE Procedure.

ANNEX 3 Questionnaire on Disbursements

Questionnaire on Disbursements Addressed to the Borrower or the Executing Agency

1. Procedure for payment

Please briefly explain the following:

- (1) function of the organizations concerned (executing agency, bank, etc.) with regard to the payment to the suppliers as well as to the request for disbursement to Japan International Cooperation Agency (hereinafter referred to as “JICA”)
- (2) procedural flows (approval system) required in each organization concerned in order to make payment to the suppliers, including how to discriminate non-eligible items
- (3) procedural flows (approval system) required in each organization concerned in order to make a request for disbursement to JICA
- (4) storage system of payment records, including evidence as well as the period of storage
- (5) training system for the staff in charge of accounting, payments, etc., in the Executing Agency

2. Special Account (In case of applying Special Account Procedure only)

Please briefly describe the following:

- (1) procedural flows required for approving each withdrawal from the Special Account(s)
- (2) financial flows from the Special Account(s) (Is there any intermediate financial institution between the Special Account and the end-users?)
- (3) procedural flows required for the administration of the Special Account (how to keep account of each withdrawal)
- (4) (in the case of the opening of multiple Special Accounts) the reasons for opening multiple accounts as well as the procedural flows required to administer the multiple Special Accounts

3. Audit and Statement of Expenditures (SOE) Procedure

Please briefly describe the following:

- (1) procedural flows required for employing an Auditor
- (2) law or legislation with regard to the employment of Auditors, if any (Is there any law or legislation that requires the employment of a specific Auditor?)
- (3) coordination and communication scheme with the Auditor after employment
- (4) (In cases where it is necessary to employ a private audit firm as your auditor) Is this acceptable? (Are there any requirements or restrictions other than the above-mentioned law or legislation on the employment of a private audit firm) If not, what would be the problems?
- (5) (In cases where it is necessary to employ a private audit firm as your auditor) Do you wish to include the auditor's costs in the project costs, so that part or all of the auditor's costs can be financed by JICA loan?
- (6) Do you have any experience of applying the SOE Procedures? If yes, please briefly describe the following:
 - name of the project as well as the sector related to the project
 - procedures that you followed
 - any problems that arose, if any, under these procedures
- (7) (In cases where the Auditor has already been chosen) Will your Auditor agree to conduct an audit on the SOEs? If not, please specify the reasons.

ANNEX 4 Main criteria for the selection of an auditor

1. For private external audit firms

(1) Independence

- The internal regulations of the audit firm concerned shall require the partners to be independent.
- More than half of the audit firm concerned shall not consist of full-time partners and / or employees of the Borrower and the Executing Agency, beneficiaries or other parties related to the project.
- The Borrower and the Executing Agency (or their employees), beneficiaries or other parties related to the project shall not have the right to make important decisions, such as the right to appoint the full-time directors of the audit firm concerned or the right to determine personnel management.
- The audit firm concerned, or any employees of the audit firm concerned, shall not have any specific relationship to the project covered by the audit.
- The employees of the audit firm concerned shall not have any other relationship with the Borrower or the Executing Agency, beneficiaries or any other party that could give rise to any economic or political benefit.

(2) Expertise

- Previous auditing track record (SOE auditing experience, auditing experience of similar projects, auditing experience of projects by the World Bank, etc.).
- The number and experience of current specialist staff at the audit firm concerned, number of staff to ensure implementation of the auditing of this project.
- Current work volume of the relevant audit firm (Is it possible to complete the audit and submit the audit report by the deadline?).
- If the audit firm concerned is a subsidiary, branch or affiliate of an internationally renowned audit firm, such as one of the so-called BIG 4¹⁶, is there a substantial relationship with the relevant BIG 4 firm?

(3) Auditing Standards

It is required that an audit be conducted in accordance with either of the auditing standards below.

- Generally Accepted Auditing Standards (GAAS) (auditing standards that are generally accepted in the relevant country).
- International Standards on Auditing (ISA): Auditing standards on public accounting

¹⁶ BIG 4: A general term that refers to the four large international accountancy firms of PriceWaterhouse Coopers, KPMG, Deloitte Touche Tohmatsu, and Ernst & Young.

established by the International Federation of Accountants (IFAC).

2. Official (Legislature or Government) control agencies

(1) Independence

- The existence of laws that guarantee the independence of the relevant auditing agency.
- The Borrower or the Executing Agency (or their employees), beneficiaries or other parties related to the relevant project shall not own more than half of the issued shares in the auditing agency (if shares have been issued).
- More than half of the audit firm concerned shall not consist of full-time partners and / or employees of the Borrower or the Executing Agency, beneficiaries or other parties related to the project
- The Borrower or the Executing Agency (or their employees), beneficiaries or other parties related to the relevant project shall not have the right to make important decisions, such as the right to appoint the full-time directors of the relevant auditing agency or the right to determine personnel management.
- The employees of the relevant auditing agency shall not have any other relationship with the Borrower or the Executing Agency, beneficiaries or any other party that could give rise to any economic or political benefit
- If the relevant auditing agency is a local government auditing agency, the local government shall not control over half of the issued shares, over half of the full-time employees or have the right to make important decisions, such as the right to appoint the full-time directors or the right to determine personnel management.

(2) Expertise

- Existence of legal restrictions on the activities of the relevant auditing agency (implementation of the SOE audit and the expression of an audit opinion is not recognized, no legal jurisdiction over the Borrower or the Executing Agency, etc.).
- Previous audit track record of the relevant auditing agency (SOE auditing experience, auditing experience of similar projects, auditing experience of projects by the World Bank, etc.).
- The number and experience of current specialist staff at the relevant auditing agency, the number of staff to ensure implementation of the audit of this project.
- Current work volume of the relevant auditing agency (Is it possible to complete the audit and submit the audit report by the deadline?).

(3) Auditing Standards

It is required that the audit be conducted in accordance with either of the audit standards below.

- Generally Accepted Auditing Standards (GAAS) (auditing standards that are generally accepted in the relevant country).
- Auditing Standards of the International Organization of Supreme Audit Institutions (INTOSAI).

ANNEX 5 Example of an Engagement Letter

Engagement Letter

To: [The Borrower]

[Date:]

Re: Statement of Expenditures Audit for the Loan Agreement No. []

[The Auditor] has hereby agreed with [the Borrower] to:

- (a) audit the records and accounts related to the applicable expenditures financed out of the loan under the Loan Agreement No. [], dated [], between JICA and [the Borrower], within [] months after the end of each fiscal year in [the Borrower's country], in accordance with generally accepted auditing standards, and
- (b) submit to the Borrower a certified copy of the report of such an audit, whose format shall be substantially similar to the attached sample format.

(In the case of government auditors only) The authorized person(s) to certify such an audit report are [name, title]

[Name of the Auditor]

[Title of the Auditor]

[Name and Address of the Audit firm]

ANNEX 6 Standard Audit Report

AUDIT REPORT (Unqualified Opinion)

To: [The Borrower]

【A: Addressee and Submission deadline】

Date: []

【B: Introductory Paragraph】

We have Audited the accompanying Statements of Expenditures (SOEs) of the [(Project Name)] Project financed under the Loan Agreement (L/A) No. [] for the year(s) []. The SOEs are the responsibility of [(Name of the Borrower or the Executing Agency)]'s management. Our responsibility is to express an opinion on the SOEs based on our audit.

【C: Scope Paragraph】

We conducted our audit in accordance with Generally Accepted Auditing Standards [or relevant national standards or practices]. These Standards require that we plan and perform the audit to obtain a reasonable assurance about whether the SOEs are free of material misstatements. An audit includes verifying the SOEs with the accounting records, supporting documents, and physical inspection of the work done, or the goods and services acquired. We believe that our audit provides a reasonable basis for our opinion.

【D: Opinion Paragraph】

In our opinion, with regard to the SOEs, adequate supporting documents has been maintained to support the claims to JICA for reimbursement of the expenditures incurred; and which expenditures are eligible for financing under the Loan Agreement.

【E: Auditor】

.....
Note: Each section of this standard audit report identified alphabetically from A to E corresponds to the checklist in ANNEX 7, which shows the points to be covered by the SOE audit report.
.....

[Name of the Auditor]

[Title of the Auditor]

[Name and Address of the Audit firm]

[Completion Date of the Audit]

EXAMPLES OF AUDIT REPORTS OTHER THAN THOSE WITH AN UNQUALIFIED OPINION

Qualified Opinion:

Separate paragraph required after the Scope Paragraph

-
-

Revised Opinion Paragraph

In our Opinion, with regard to the SOEs, except for the items as described in the preceding paragraph, adequate supporting documents has been maintained to support the claims to JICA for reimbursement of the expenditures incurred; and which expenditures are eligible for financing under the Loan Agreement.

Adverse Opinion:

Separate paragraphs required after the Scope Paragraph

-
-

Revised Opinion Paragraph

In our opinion, with regard to the SOEs, subject to the matter discussed in the preceding paragraph, adequate supporting documents has not been maintained to support claims to JICA for reimbursement of the expenditures incurred; or which expenditures are not eligible for financing under the Loan Agreement.

Disclaimer of Opinion:

Revised Introductory Paragraph

We were engaged to audit the accompanying Statements of Expenditures (SOEs) for the years []. The SOEs are the responsibility of []'s management. (Omit the sentence stating the responsibility of the auditor.)

(Scope paragraph would either be omitted or amended according to the circumstances.)

Revised Opinion Paragraph

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the SOEs.

ANNEX 7 Points for JICA to check in the Audit Report

【A: Submission deadline and addressee】

- (1) Was the audit report submitted by the submission deadline stipulated in the L/A?
- (2) Is the addressee the appropriate organization, such as the Borrower or the Executing Agency, as stated in the Engagement Letter?

If the items above have not been observed, JICA asks for correction to the Borrower or the Executing Agency.

【 B: Items stated in the Introductory Paragraph】

In an SOE audit, there must be a clear demarcation between the responsibility for preparing the SOE (and in addition, responsibility for the account management in case of the Special Account Procedure) and the responsibility for auditing the SOE and the special account. Moreover, it is necessary to specify the coverage of the audit and limit the scope of responsibility of the auditor. Consequently, the audit report must specify the SOEs covered by the audit. Checking of the items below specifies the coverage of the audit as well as clarifying the separation of responsibility.

- (1) Are the project name and L/A number stated?
- (2) Is the period covered by the audit stated, and does the audit cover all SOEs for the period¹¹?
- (3) Is the separation between the responsibility for preparing SOEs (Borrower or Executing Agency) and the responsibility for expressing an opinion (auditor) noted?
- (4) Are the SOEs covered by the audit attached to the audit report?
- (5) If a number of reports are submitted for a single L/A, are the numbers and names provided to enable identification?

If (1) through (3) above have not been stated and the coverage of the audit cannot be identified, the relevant audit report is returned to the auditor via the Borrower or the Executing Agency and resubmission of an amended report with the correct descriptions is required.

If the items in (4) above have not been attached, the auditor is requested to submit them via the Borrower or the Executing Agency.

If the items in (5) above have not been noted, making identification impossible, the auditor is requested to provide confirmation via the Borrower or the Executing Agency.

¹¹ Although all the SOEs for the target period are covered by the audit, a sample check is made of the corresponding supporting documents. The auditor determines the coverage ratio of the supporting documents and where to place the focus of the sample check at the audit plan formulation stage prior to beginning the audit. This is based on factors that include the details of the project, the management system of the Executing Agency, the results of the audit of a similar project in the previous fiscal year or of the same Executing Agency, and the current capacity of the Executing Agency (including the capacity of its local offices). When necessary, JICA obtains the audit plan from the auditor via the Borrower or the Executing Agency and reviews the supporting documents coverage ratio and the focus of the sample check.

【C: Items stated in the Scope Paragraph】

Unless the audit is conducted using an appropriate audit approach, it is ineffective. JICA checks the appropriateness of the auditing approach according to the items below.

- (1) Is there a description to the effect that the audit was conducted in accordance with Generally Accepted Auditing Standards (GAAS)? An audit that conforms to International Standards on Auditing (ISA) for a private sector audit firm or the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards for public auditing organizations is also acceptable.
- (2) Is there a note to the effect that the audit plan was formulated and implemented in order to obtain sufficient corroborating evidence for the formation of an audit opinion on the SOEs?
- (3) Is there a note on the audit procedures implemented to examine the soundness of the SOEs, and are the procedures appropriate?
- (4) Is there a description indicating that sufficient corroborating evidence was obtained in order to form an audit opinion?

If there is no description related to (1) through (4) above, and it is not possible to confirm whether or not the audit was conducted and the opinion formed in accordance with GAAS, JICA obtains confirmation from the auditor via the Borrower or the Executing Agency. If it is still not possible to obtain confirmation, the relevant audit report is returned, and an amended report must be resubmitted.

【D: Items stated in the Opinion Paragraph】

The audit is conducted in order to achieve the audit objectives, and the audit opinion must be expressed in accordance with the audit objectives. If, as a result of checking the audit opinion section, the audit opinion is not clearly expressed, JICA requests the auditor to provide an audit opinion via the Borrower or the Executing Agency and requires that the audit report be resubmitted.

【E: Auditor】

An audit can only be effective when conducted by an independent and competent auditor. JICA checks whether the auditor who conducted the audit differs from the auditor selected following the initial determination of competence according to the following items.

- (1) Is the name of the auditing organization the same as that stated in the L/A, and is the auditor selected on the basis of the prescribed procedures and approved by JICA?
- (2) Is the auditor's name and signature present?
- (3) Is the date of the auditor's signature within the deadline determined by the L/A?

If (1) above has not been observed, JICA returns the relevant audit report to the Borrower or the Executing Agency, and it is required to resubmit a report from the correct auditor.

If (2) above has not been observed, JICA returns the relevant report to the auditor via the Borrower or the Executing Agency, and the resubmission of an amended report with the correct entries is required.

If there are no entries relating to (3) above, JICA recommends correction by the auditor

via the Borrower or the Executing Agency.

ANNEX 8 Auditor's Opinion and the required action

【Unqualified Opinion】

Definition: An Unqualified Opinion is expressed when there are no important qualifications and the SOE covering expenditures is sound. In this case, the Borrower or the Executing Agency can send the Audit Report in accordance with 3 (6) on page 4.

【Qualified Opinion】

Definition: A Qualified Opinion is expressed when there are important qualifications regarding deviation from the criteria (L/A), or the scope limitation of the audit, or both, but the overall influence is not sufficiently important to express an Adverse Opinion or to withhold an audit opinion (Disclaimer regarding the Opinion).

Action required of the Borrower

When a Qualified Opinion is expressed, the Borrower or the Executing Agency takes the following measures in phased steps.

Step (1): Obtainment and Confirmation of a Settlement Certificate

The Borrower or the Executing Agency obtains a Settlement Certificate for the qualifications noted in the audit report that indicates that the auditor has confirmed the settlement of the relevant qualifications. If the details noted in the Settlement Certificate are unclear, the Borrower or the Executing Agency requires the auditor to provide additional explanation according to JICA's instructions.

Disbursements through the SOE Procedure can be suspended, depending on the importance of the qualifications, until a Settlement Certificate with sufficient details can be obtained.

Reference

On confirmation that the qualifications have been settled, JICA checks whether the decision on the settlement of the qualifications and the basis for the decision are appropriate.

Example:

- For qualifications based on the eligibility of expenditures for financing: JICA confirms whether the decision to recognize the relevant expenditures as eligible for financing in the Settlement Certificate and the basis for that decision are appropriate.
- For qualifications due to insufficient presentation of the supporting documents: JICA confirms whether the additional corresponding supporting documents are presented and whether the details of the supporting documents are sound.

Step (2): If a Settlement Certificate cannot be obtained, or if there are qualifications that are not stated on the obtained Settlement Certificate

The Borrower or the Executing Agency provides JICA with information regarding the details of the qualifications, the reasons why a Settlement Certificate has not yet been obtained, and the possibility of and schedule for obtaining it in the future.

Step (3): If there are qualifications for which a Settlement Certificate cannot be obtained even after a reasonable period

After discussions with JICA, the Borrower or the Executing Agency is required to refund the corresponding amount. (If a subsequent disbursement is scheduled, adjustment of the amount of the subsequent disbursement is also possible.) In addition, it is necessary to decide whether to continue the SOE Procedure in subsequent disbursements or whether to change to procedures that do not use an SOE (submission of all supporting documents).

【Adverse Opinions and Disclaimer regarding the Opinion】

Definition: An Adverse Opinion is expressed when the effect of the important qualifications regarding deviation from the criteria of the L/A is significant, and the overall SOE is considered unsound. A Disclaimer regarding the Opinion is expressed when the effect of important qualifications related to the restrictions of an audit is significant, and an opinion cannot be expressed on the soundness of the SOE.

A specific example of an adverse opinion is expressed when expenditures that are ineligible for JICA financing are recorded in the SOE. A specific example of a disclaimer regarding an opinion is when the supporting documents for determining the appropriateness of expenditures has not been submitted.

When an adverse opinion is expressed or a disclaimer regarding an opinion is recorded, disbursement by the SOE Procedure is temporarily suspended until the qualifications that led to the opinion are settled. Moreover, in projects in which the same auditor conducts audits of a number of special accounts regarding which an adverse opinion has been expressed for some of the special accounts or a disclaimer regarding the opinion has been recorded, disbursements for the other special accounts audited by the same auditor are also temporarily suspended.

Action required of the Borrower

The specific measures for when an adverse opinion is expressed or a disclaimer regarding the opinion is recorded are as below, and JICA responds as noted in phased steps.

Step (1) Request for correction of the relevant SOE and resubmission of the audit report

The Borrower or the Executing Agency is required to correct the relevant SOE and to submit a new audit report.

→ When a corrected SOE and audit report are resubmitted

JICA continues disbursement using the SOE if the resubmitted audit report gives an unqualified opinion or a qualified opinion and a Settlement Certificate for the qualifications can be obtained.

Step (2): If a corrected SOE and audit report are not submitted

In this situation, major flaws are frequently apparent in the internal administration system (department and personnel systems and compliance, etc.) that the Borrower or the Executing Agency was required to establish in the first place in order to prepare

sound SOE. As a result, JICA surveys the establishment and operational status of the internal administration system for preparing SOE within the Borrower or the Executing Agency, if the corrected SOE and audit report are not resubmitted despite a request from JICA.

→ If JICA finds, as a result of the survey, that the internal management system of the Borrower or the Executing Agency has been adequately established

The Borrower or the Executing Agency is required to correct the relevant SOE and submit a corresponding audit report. JICA continues disbursement using SOE if the resubmitted audit report gives an Unqualified Opinion or a Qualified Opinion with a Settlement Certificate for the qualifications can be obtained.

Step (3): If JICA finds, as a result of the survey, that the internal management system of the Borrower or the Executing Agency has been inadequately established

Based on the survey results, JICA provides guidance to improve the establishment and operation of the internal management system of the Borrower or the Executing Agency to a level that is adequate for the continuation of the SOE Procedure.

Step (4): If JICA finds, as a result of the survey, that the internal management system of the Borrower or the Executing Agency cannot be improved.

The borrower is requested to repay the corresponding amount. In addition, the disbursement procedures will be changed to a method that does not use the SOE Procedure (submission of all supporting documents will be required).

ANNEX 9 Standard L/A Text when the SOE Procedure is applied

Section 4 Administration of Loan

(X) The Borrower shall:

- (a) furnish JICA as soon as possible, with an engagement letter signed by authorized person of [Auditor's name (i)], in which the said auditor agrees to audit the records and accounts related to the applicable expenditures financed out of the Loan and to submit the Borrower a certified copy of the report of such audit;
- (b) maintain, or cause to be maintained, records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the expenditures financed out of the proceeds of the Loan;
- (c) have the records and accounts referred to in paragraph (a) above for each fiscal year audited, in accordance with appropriate auditing principles consistently applied by the said auditor;
- (d) furnish JICA as soon as available, but in any case not later than [due date of the audit report submission (ii)] months after the end of each such year, with a certified copy of the report of such an audit by the said auditor, of such scope and in such detail as JICA may reasonably request;
- (e) furnish JICA with such other information concerning said records and accounts, and the audit thereof, as JICA may from time to time reasonably request;
- (f) retain, until at least five (5) years after the Completion Date, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (g) enable JICA's representatives to examine such records;
- (h) ensure that such records and accounts are included in the annual audits referred to in paragraph (c) above and that the report of such audit contains a separate opinion by the said auditor as to whether the statements of expenditures submitted during the relevant fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related

disbursements; and,

- (i) in the event that the use of a specified amount of the Loan is not justifiable according to a certified copy of the report of such audit referred to in paragraph (c) above, refund to JICA, upon request of JICA, such unjustifiable amount.

(Y) When the Borrower, in the opinion of JICA, fails to perform its obligations stated in any of the paragraphs of the sub-section (X) above, JICA may, by notice to the Borrower, suspend in whole or in part the rights of the Borrower under the Loan Agreement until JICA determines that such failure has been fully remedied. However, this stipulation does not impair JICA's further exercise of the rights stated in the Section 6.01 of the General Terms and Conditions.

(i) The specific name of the auditor shall be selected and agreed upon. If this agreement has not been made at the time of the L/A, "an auditor acceptable to JICA" shall be substituted for the auditor's name. When, according to the regulations of the Borrower's country, the Auditor employed by the Borrower obligatorily conducts the audit, this article is omissible.

(ii) Any number between 6 to 9 months shall be inserted. See P5, 3. (6) of this Guidance.