

How to Prepare for Auditing

By:

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Objectives of the Finance Learning Forum:

At the end of the session the participants are expected to:

1. Gain a thorough understanding about audit requirements
2. Be ready before the audit period
3. To understand more on how to respond to the audit finding/challenging
4. To gain more idea on how to read audit opinion

Session 1: List of Required Documents for the Audit



Type of Audit Files

1. Permanent Files

- ✓ Articles of association and bylaws
- ✓ MoU with relevant ministries
- ✓ Organizational charts
- ✓ Donor contracts and agreements
- ✓ Prior year audit reports
- ✓ Internal control documentation

2. Current Files

- ✓ Financial statements for the current year
- ✓ Working papers and calculations
- ✓ Bank reconciliations
- ✓ Trial balances
- ✓ Lead schedules and supporting documentation

DCo's List of Required Documents for NGO Audit



- This list represents the minimum required documents; other documents may be requested as the audit progresses.

Permanent Files

Contain information that is relevant across multiple audit periods



PERMANENT FILES

Legal Registration Documents:

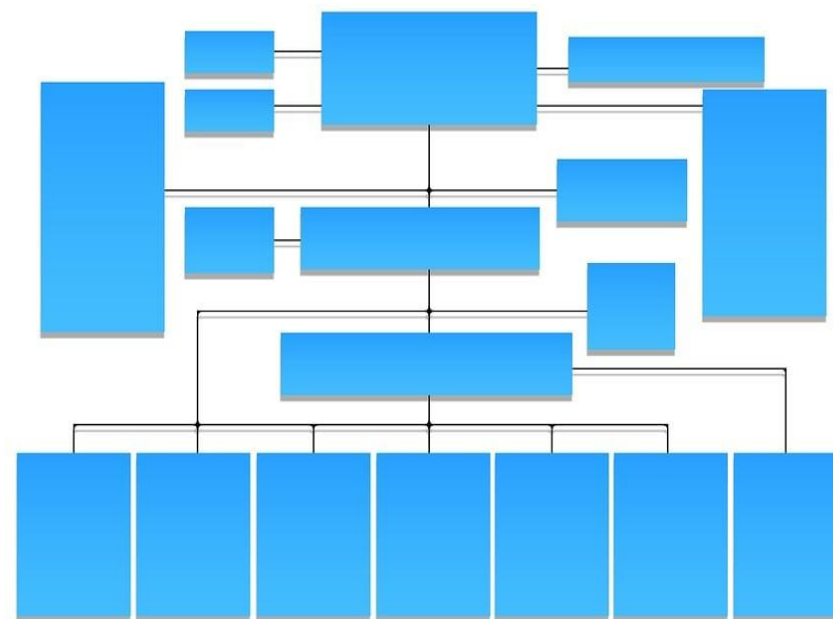
- Registration with the government (all MOUs- MOI, MOFAIC, MoEYS, MOH, MoSVY and with other relevant ministries)-updated
- Registration with the General Department of Taxation (GDT) (Including Tax Registration Certificate and Card and Patent Certificate for Organization and approved tax exemption letter for grants)-updated
- Registration with the Accounting and Auditing Regulator (ACAR)
- Registration with the Ministry of Labour and Vocational Training (MoLVT) and National Social Security Fund (NSSF)



PERMANENT FILES

Organization Documents:

- Organisational Chart- updated
- By-Law and Approved Strategic Plan (next 3 to 5 years) of the Organization
- Minutes of Board Meeting
- List of the Board Directors and their designation and Management Team- updated
- Updated Job Description of Finance Staff, Employment contract and sample of the volunteer's contract, if any



PERMANENT FILES

Policies and procedures

Updated Finance Manual or Policies and Procedures-approved by Board

Anti-money laundering and countering financing terrorism policy, including screening of suppliers documentations

Special policies - gifts, commission, conflict of interest, and anti-fraud and corruption, child protection etc

IT Policies- access to organization data, controls and security

HR/Admin/Staff Policy and internal operations manual, regulations and policies

Procurement policies



PERMANENT FILES

Agreements and Contracts:

- Insurance contract and policies
- Contracts entered with customers and suppliers during the audit period
- Contracts entered with landowners during the audit period
- Contracts entered with donors during the audit period including the Project Proposal, Budget Proposal and relevant Annexes
- Contracts entered with partner during the audit period, if any



PERMANENT FILES

Annual Reports, Financial/Project Monitoring and Internal Audit:

- Narrative report submitted to Donors and Annual report submitted to all relevant ministries (Draft and final)
- Annual Tax and ACAR Reports
- Access to all internal audit reports, financial monitoring reports or financial assessments reports, if applicable



PERMANENT FILES



Legal Documents:

- Legal correspondence (if any)
- List of outstanding lawsuits including status of lawsuits (if any)

Current Files

Specific to the audit period being reviewed



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CURRENT FILES- FINANCIALS

- Organizational and Project Budget vs. Actual Report with Explanation of Material Variances (10% to 20% variance, depending on donor requirements).
- **Complete set of financial statements (BS, PL, Cash flows, Changes in Fund Balance and notes) for the audit period, including comparative figures from the previous year (audited if applicable)**
- ✓ Trial balance during the audit period.
- ✓ General ledgers and Journals during the audit period
- ✓ Monthly Balance Sheet and Profit and Loss during the audit period
- ✓ Financial budget/forecast for succeeding years (strategic budget)
- ✓ Previous year audit report and management letter

Current Files- Lead Schedules and Supporting Documentation



ASSETS



Cash

- Certification of cash on hand at year end.
- Bank Reconciliations
- Cash count performed by client
- Surprise cash count (client and auditor)
- Fixed Deposit Certificates
- Bank Confirmation



Advances and Receivables

Aging of advances and receivables

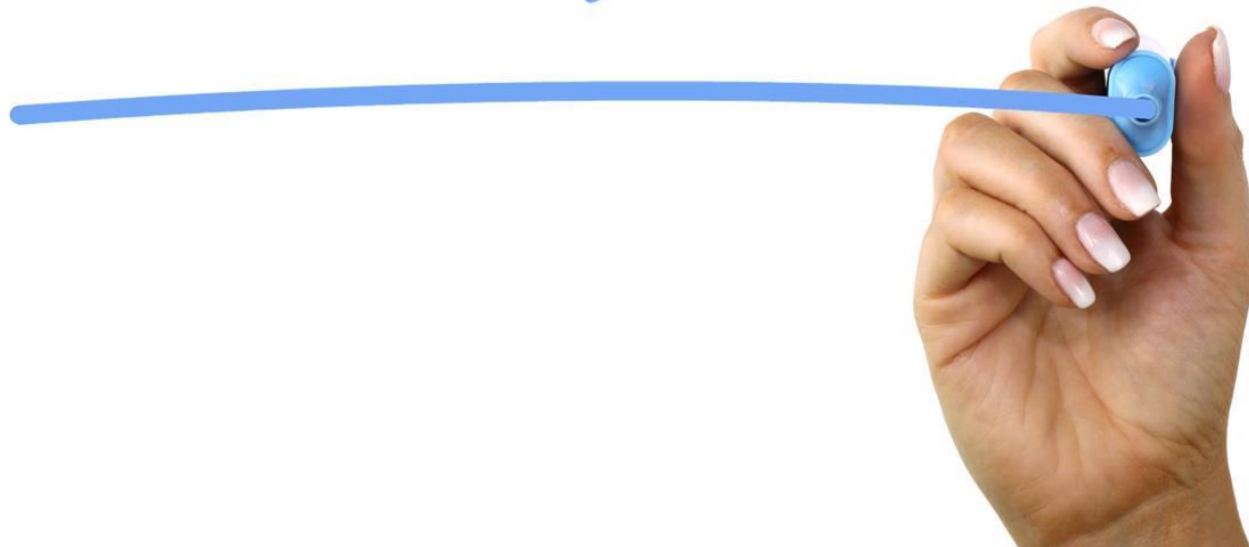
Detailed listing of advances and payables

Detailed listing of prepayments and deposits

Confirmation of receivables and advances

LIABILITIES

OBLIGATION



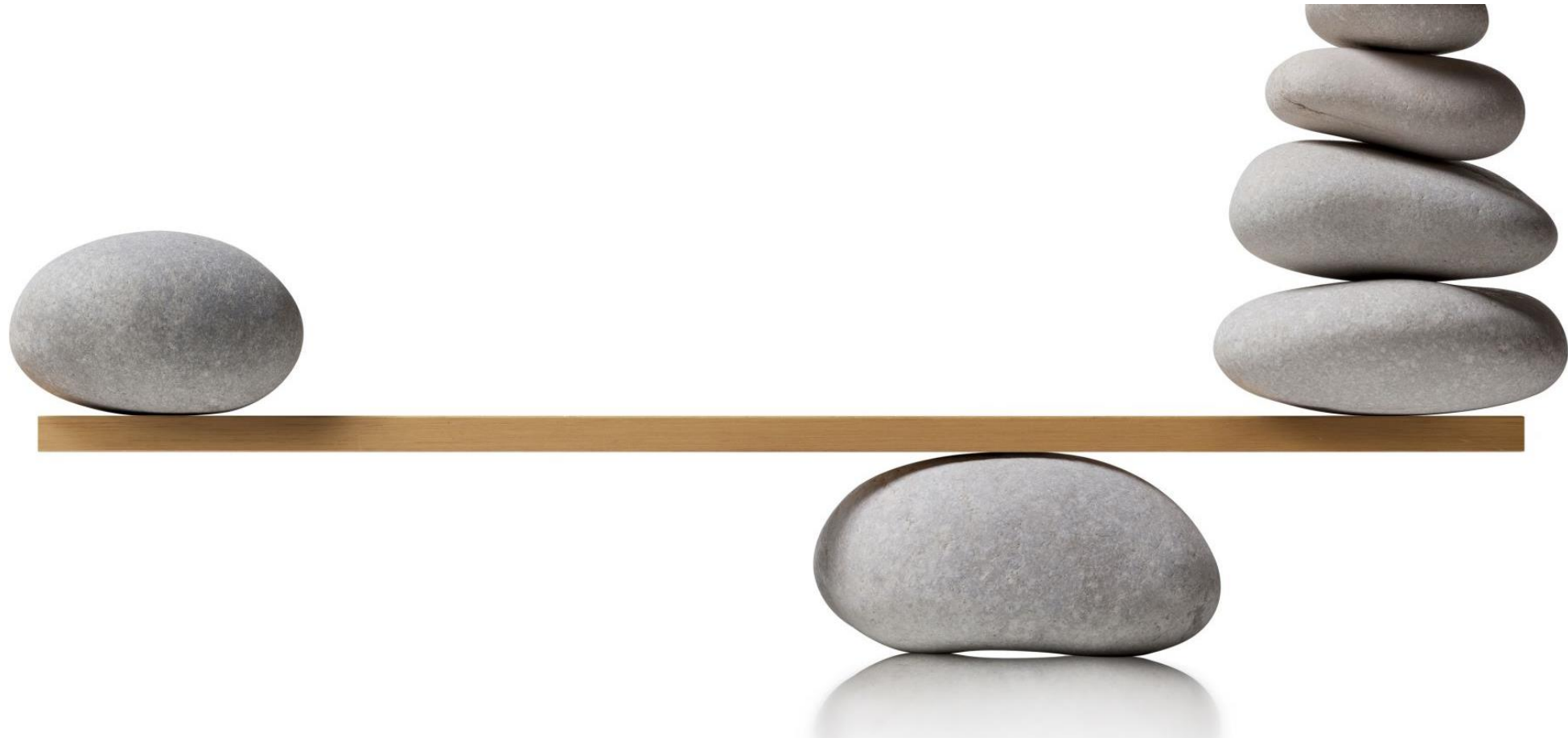
Accruals and payables

Aging of payables

Listing of accruals and other payables

Confirmation of payables

Equity/Fund Balance



Equity/Fund Balance

- Roll forward- Opening fund balance reconciled with the previous audit report
- Schedule of fund balance by donor
- Schedule of fund balance by Project

GRANTS OR INCOME

- Grants Agreements
- Official Receipts/Acknowledgement of Receipt
- Disbursement Request
- Donor Confirmation

EXPENSES

- Expenses are supported by valid invoices and receipts
- Expenses are directly related to the project activities.
- Expenses are classified correctly according to their nature.
- Expenses are recognized in the appropriate period
- Indirect expenses are allocated fairly based on the Organization's cost-sharing policy.

PAYROLL

- Payroll summary
- Timesheet supporting the allocation of salaries to the project.
- Pay slip
- Tax on salaries computation
- Seniority and severance pay computation
- Personnel files (contract, CV, certificates, ID, etc)

Property and Equipment (Fixed Assets)

- Fixed Assets Register
- Documentation of physical count of assets.
- Vehicle logbook

Supplies or Inventory

- Supplies log book (stock in and out)
- Documentation of stock count

Session 2: Common Challenges and Findings in NGO Audits- Auditor's perspective



Common Challenges faced by NGO in Cambodia- Auditor's perspective

Board Oversight- Some members of the Board of Directors are not actively fulfilling their intended roles, and the Board Treasurer has not performed financial oversight independent of management

Regulatory compliance- Different accounting standards for statutory audit/unaudited financial reporting (*CFRS for NFPEs-cash basis or CIFRS for SMES-accrual basis*) and Donor Audit (*Accounting policies of the Organization and donor financial provisions*)

Funding Constraints- some organizations struggle with insufficient core funding to adequately cover indirect costs.

Common Challenges faced by NGO in Cambodia- Auditor's perspective

Human Resources- some organizations have understaffed finance, admin and HR departments, primarily due to funding limitations.

Monitoring- some organization do not have financial monitoring checklist for close oversight of management, government, and donor reporting.

Sustainability- Most NGOs in Cambodia lack sustainability plans to address potential cessation of donor support.

Financial Reporting/Deadlines: Some NGOs face strict donor deadlines, but their financial books may not yet be finalized.

Common Findings in NGO Audits

- Some organizations do not have established finance policies and procedures
- Some organizations do not have updated financial policies and procedures in place.
- Some organizations do not have an established policy for anti-money laundering (AML) and countering the financing of terrorism (CFT), including procedures for screening suppliers against EU Sanctions.

Common Findings in NGO Audits

- Instances of fraud and/or misappropriation have been identified in our audit, primarily involving the falsification of receipts and distribution lists.
- Tax on fringe benefits for cash allowances (medical, COLA, transportation, and communication) provided to staff—no request for tax exemption has been submitted to the GDT.
- No proper breakdown of material and labor costs for car repairs and office renovations has resulted in overpayment of withholding tax on services.

Common Findings in NGO Audits

- Some organizations lack an established IT policy and proper safekeeping of offsite backups.
- Some organizations do not have an established whistleblower policy
- Lack of Preparation of monthly or quarterly financial reports
- Some organizations' finance staff lack training in accounting and taxation
- Preparation of annual financial report with budget comparison- common for small Ngos

Common Findings in NGO Audits

- Erasures and overwriting in payment vouchers are present without the countersignature of authorized personnel.
- Maintaining cash on hand above the maximum balance permitted by policy
- Incomplete and outdated fixed assets list.
- No asset tag or stickers on the fixed assets.
- Failure to conduct an annual physical count
- No official receipts received from registered suppliers.

Common Findings in NGO Audits

- Some organizations do not obtain three price quotations from suppliers as required by the procurement policy, without providing explanations or justifications
- Some organizations do not secure agreements from their service providers or suppliers.
- Some organizations do not withhold 10% or 15% from their unregistered service providers
- Incomplete information on the tax invoice.
- Some organizations, particularly small NGOs, do not have internal receipts

Common Findings in NGO Audits

- Some organizations, especially small NGOs, do not have proper accounting forms, such as advance requests, payment vouchers, income vouchers, and petty cash forms
- Some organizations do not maintain complete personnel files.
- Some expatriate staff receiving salaries from the Head Office abroad did not pay taxes on their salaries in Cambodia.

Common Findings in NGO Audits

- Some organizations do not prepare percentage allocations of timesheets charged to different projects.
- Some organizations do not possess an income tax exemption letter from the GDT.
- Some NGOs engaged in business activities have not complied with Prakas 464, dated 12 April 2018.

Common Findings in NGO Audits

- Share costs allocation policy- some shared costs policies developed by NGOs are not effectively implemented in practice and others have no shared costs policy at all.
- Some organizations do not have established policies on anti-fraud and corruption, gift acceptance, and conflict of interest.
- Some NGOs lack effective financial monitoring practices, including independent price checks and confirmation with suppliers and beneficiaries

Common Findings in NGO Audits

- Some organizations do not have proper segregation of duties in the finance department or unit.

Segregation of Duties: CARE

C- Custody

A- Authorization

R- Recording

E- Execution

In some small NGOs, finance officers are tasked with both cash custody and recording transactions in the accounting system, and there are no independent checks or surprise cash counts conducted.

- No dual access to cash safe

Common Findings in NGO Audits

- Some organizations do not have certificate of declaration of opening the entity from Ministry of Labour and Vocational Training (MLVT) as required under Prakas 358/21 dated 30 December 2021.
- Some organizations do not have registration with Accounting and Auditing Regulator (ACAR) and/or meet the reporting requirements of ACAR.
- Some organizations have made incorrect calculations of withholding tax on salaries (*included employee pension contribution*) and fringe benefits.

Common Findings in NGO Audits

- Proposed audit adjustments not posted to the accounting system.
- The audited reports are not reconciled with the accounting system.
- Late recording of settlements after the cutoff period, leading to delayed clearing procedures that require additional review time during the audit.

Common Findings in NGO Audits

- Some organizations have made incorrect calculations of seniority pay for employees.

I. How to count Seniority

From 2019 onward, the seniority of workers/employees to be paid the payment of seniority indemnity shall be counted once per semester (6 months): the first semester starts from January to June and the second semester starts from July to December.

Passed-probation workers/employees who have worked from 1 month to 6 months in each semester and have worked until the end of each semester: June and December, the workers/employees can receive a payment of seniority indemnity equals to 7.5 days of average wages and other benefits each semester.

II. How to calculate seniority indemnity

From 2019, for passed-probation workers/employees who have worked with seniority as stipulated in the conditions in Point "I" above, the calculation of payment of seniority indemnity shall be implemented as follows:

- ❖ First: must calculate average wage and other benefits per month

$$\text{Average wages and other benefits per month} = \frac{\text{Wages and benefits per semester}}{6 \text{ months or actual months worked}}$$

- ❖ Second: must calculate average wage and other benefits per day

$$\text{Average wages and other benefits per day} = \frac{\text{Monthly average wages and benefits}}{22 \text{ days or } 24 \text{ days or } 26 \text{ days}}$$

(Base on the working days of each enterprise/establishment)

Session 3:

Understanding Audit Opinion



Four types of audit opinion

1. Unqualified Opinion	Indicates that the financial statements present a true and fair view, in accordance with the applicable financial reporting framework. This is the best possible outcome
2. Qualified Opinion	Indicates that, except for certain areas where specific issues exist, the financial statements are fairly presented. This opinion suggests some concerns but is generally positive.
3. Adverse Opinion	Indicates that the financial statements do not present a true and fair view, and significant misstatements exist. This is a serious issue requiring immediate attention.
4. Disclaimer of Opinion	Occurs when the auditor is unable to obtain sufficient evidence to form an opinion on the financial statements, often due to limitations imposed by the organization

Illustration 1- Unqualified Opinion (Statutory audit)

Opinion

We have audited the financial statements of ABC Organization (the Organization), which comprise the statement of financial position as at December 31, 2024, and the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Company as at December 31, 2024, and (of) its financial performance and its cash flows for the year then ended in accordance with Cambodian Financial Reporting Standards for Not-for-Profit Entities).

Illustration 2- Unqualified Opinion (Donor Audit-Special Purpose Financial Statement)

Opinion

We have audited the financial statements of ABC Organization (“the Organization”), which comprise the statement of financial position as at 31 December 2024, the statement of income, expenditures and fund balance, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Organization as at 31 December 2023 and for the year then ended are prepared, in all material respects, in accordance with the accounting principles set out in Note 2 to the financial statements and the financial reporting provision of the Association and its applicable funding agencies.

Illustration 3- Qualified Opinion

Qualified Opinion

We have audited the financial statements of ABC Organization (“the Organization”), which comprise the statement of financial position as at 31 December 2024, the statement of income, expenditures and fund balance, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements of the Organization as at 31 December 2023 and for the year then ended are prepared, in all material respects, in accordance with the accounting principles set out in Note 2 to the financial statements and the financial reporting provision of the Organization and its applicable funding agencies.

Illustration 3- Qualified Opinion (Cont'd)

Basis for Qualified Opinion

During our audit, we identified insufficient documentation regarding the beginning balances of various accounts. Specifically, we were unable to obtain adequate evidence to support the beginning balances presented in the financial statements. This lack of documentation raises concerns about the accuracy and completeness of the financial information.

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Illustration 4- Adverse Opinion

Adverse Opinion

We have audited the financial statements of ABC Organization, which comprise the consolidated statement of financial position as at December 31, 2024, and the statement of income and expenses, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly (or do not give a true and fair view of) the financial position of the Organization as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Cambodian Financial Reporting Standards for Not-for-Profit Entities).

Illustration 4- Adverse Opinion (Cont'd)

Basis for Adverse Opinion

During our audit, we identified material misstatements in the activity expenses presented in Note X. These expenses lack valid and sufficient supporting documents, including invoices, receipts, and contracts, which are necessary to substantiate the legitimacy of the expenditures. Without this documentation, we are unable to verify the accuracy of the recorded expenses. Such misstatements could significantly affect the organization's financial position and overall reliability of the financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Illustration 5: Disclaimer of Opinion

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Organization, which comprise the statement of financial position as at December 31, 2023, and the statement of income, expenses, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Organization. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Illustration 5: Disclaimer of Opinion (Cont'd)

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The following factors contributed to our inability to gather adequate evidence:

1. **Limitations on Scope:**

The organization did not provide access to certain financial records and documentation, which restricted our ability to verify the completeness and accuracy of the financial statements.

2. **Inadequate Internal Controls:**

There were significant deficiencies in internal controls over financial reporting, preventing us from determining whether the financial statements were free from material misstatement.

3. **Insufficient Documentation:**

Key financial transactions lacked the necessary supporting documentation, including receipts, invoices, and contracts, making it impossible to verify their validity.

Due to these limitations, we cannot express an opinion on the financial statements.

Summary of Audit Opinion in Simple Terms

- **Unqualified:** Everything is good.
- **Qualified:** Mostly good, but some issues.
- **Adverse:** Major problems exist.
- **Disclaimer:** Cannot give an opinion.

Group Discussion

Case Study: Audit Opinion for Hope for Tomorrow NGO

Background:

Hope for Tomorrow is an NGO dedicated to providing educational support and resources to underprivileged children in rural areas. The organization has been operating for five years and primarily relies on grants, donations, and fundraising events. At the end of the last fiscal year, they engaged an external auditor to assess their financial statements.

Group Discussion

Audit Findings:

1. Inadequate Documentation:

- The audit revealed missing receipts for significant expenses, which raised questions about the accuracy of financial reporting.

2. Misallocation of Restricted Funds:

- Some funds intended for specific educational programs were found to have been used for general operational costs without proper authorization.

3. Revenue Recognition Issues:

- There were inconsistencies in recognizing revenue from fundraising events, leading to an overstatement of income.

4. Compliance Gaps:

- Minor compliance issues were identified related to reporting requirements for government grants and the Organization was late in submitting the report to ACAR

Group Discussion

Audit Opinion:

The external auditors issued a **Qualified Opinion**, indicating that while the financial statements were mostly accurate, there were significant issues that affected their reliability. This opinion suggested that stakeholders should be cautious in their trust of the financial data.

Group Discussion: Actions to Improve Financial Management

THANK YOU!!!

For inquiries, please contact me:

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