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Audit of Forest Governance, Markets and Climate Phase 2 – Portfolio Project Manager – Terms of Reference

1. Introduction

The project entitled "Forest Governance, Markets and Climate Phase 2 – Project Portfolio Manager (PPM)" (hereinafter referred to as the "Project") is a Foreign, Commonwealth and Development Office (FCDO)-funded initiative, implemented by Palladium International Ltd, aimed at reducing illegal and unsustainable use of forest resources while supporting forest-dependent communities.

Project overview – FGMC2 Project Portfolio Manager

The Forest Governance, Markets and Climate Phase 2 (FGMC2) PPM project is a UK FCDO-funded programme component delivered by Palladium International Ltd to support forest governance reform processes in partner countries. It forms part of the wider FGMC2 programme, which aims to tackle illegal deforestation, promote sustainable forest management, and improve livelihoods for forest-dependent communities.

Objectives

The project's core objective is to promote sustainable growth in developing countries, supporting them to trade their way out of poverty by changing the way forest products are bought and sold across the globe, establishing forest stewardship to reverse forest and biodiversity decline.

Scope

PPM mobilises, or commercially sources, contracts, oversees and manages a portfolio of technical assistance (TA) projects in support of forest governance reform processes. These projects are designed to be country-led, adaptive, and transformational—supporting legal and policy reforms, institutional capacity building, traceability systems, and inclusive stakeholder engagement. The PPM is currently managing a portfolio of 5 country-specific TA Projects.

Geographic coverage

The project operates across multiple countries, initially 5 core countries (including Ghana, Liberia, Cameroon, Indonesia and China), with scope to expand to further countries. Work is primarily at national level, with linkages to regional and global forest governance processes.

Reporting period

The contract runs from August 2025 to August 2029 (approximately four years), with regular reporting including monthly financial reporting, quarterly KPI-based reporting, and annual reviews. It sits within a broader FGMC2 programme timeframe of 2024 to 2035.

Key stakeholders

Key stakeholders include FCDO as the funder and programme owner, Palladium as the implementing supplier, national government agencies, forest sector businesses, civil society organisations, and Indigenous Peoples and Local Communities. Other stakeholders include international partners and programme management entities.

Funding and implementation approach

The project is funded by FCDO with a contract value of up to £75 million, of which £2.5 million is allocated to PPM's portfolio management services, and £72.5 million is allocated to the portfolio of TA projects. This is part of a larger FGMC2 programme budget of approximately £220 million for the initial phase. Delivery follows a downstream structure, with all funds passing through PPM services and being disbursed to TA projects. A portion of payments is linked to performance against agreed KPIs.

Background and key milestones

FGMC2 builds on the earlier FGMC1 programme (2011–2024) and longstanding UK support to forest governance and FLEGT processes. The project includes an inception phase at the start of implementation, followed by country-level delivery, regular reviews, and structured exit planning toward the end of the contract period.

2. Receipt of Services

The recipients of the audit service and the final report are the Foreign, Commonwealth and Development Office (FCDO) and Palladium International Limited, herein after referred to as the "Client" and "Company" respectively.

3. Objective

The objective of this audit is to express an independent professional opinion on the Project's financial statements for the reporting period.

The audit will also assess whether funds received and expenditures incurred have been, in all material respects, properly recorded, supported by adequate documentation, and utilised in accordance with the terms and conditions of the head contract (including any amendments), as well as applicable regulations and principles of economy, efficiency, and effectiveness.

The audit shall be planned and performed on a risk-based basis, in accordance with applicable International Standards on Auditing (ISA), and with due consideration to materiality, professional judgement, and auditor independence.

It is the intention of the Company and the Client to appoint a single Service Provider to undertake the annual project audit for the duration of the project. To ensure continuity and efficiency, it is expected that, as far as reasonably possible, the same audit team is retained each year, thereby reducing the need for repeated onboarding.

In line with good governance practice, the appointment may be subject to periodic review and/or re-competition at appropriate intervals to safeguard auditor independence and ensure continued value for money. The Service Provider's performance will be reviewed on an annual basis, taking into account the quality, timeliness, and effectiveness of audit delivery.

4. Scope of Work

The audit will be carried out in accordance with international standards of auditing. It will include such tests and controls as the auditor considers necessary. This exercise is required to provide sufficient appropriate audit evidence to support the auditor's opinion and meet the reporting requirements of the Client. Specific focus will be:

- To verify that the funds have been recorded and expended in accordance with the terms and conditions of the contract.
- To confirm that items and services have been procured in accordance with the guidelines included in the contract.
- To confirm that necessary supporting documents, records and accounts have been kept in respect of project expenditure.
- To verify the physical existence of project assets as per the asset register, their conditions, and locations.
- To verify whether the systems, procedures and controls, adopted by the project are efficient, effective, and transparent.
- To assess whether systems, procedures, and controls support the project in meeting its contractual obligations to the Client, including financial and project management requirements.
- To review the implementation of recommendations from the previous Year's audit and assess if there has been any recurrence of issues noted in the previous Year's audit (not required for the initial audit).
- To identify risks of material misstatement (due to fraud or error), perform appropriate audit procedures, and gather sufficient evidence to support the audit opinion.

The audit should cover the period of 4th August 2025 to 30th September 2026. It should cover PPM and the 5 TA projects within its portfolio: China, Liberia, Ghana, Cameroon and Indonesia. There are, on average, 725 transactions per month across all of these projects.

5. Methodology

The audit will be carried out in accordance with international standards of auditing. The Auditor shall adopt a risk-based sampling approach in accordance with International Standards on Auditing (ISA), with sample design, size, and selection determined based on materiality, risk assessment, and professional judgement. The audit will include structured interviews with relevant project, finance and operations staff to support understanding of systems, controls and transactions. The audit can be undertaken remotely, physically at the Company's offices, or in a hybrid format. The Auditor shall ensure confidentiality of all information obtained during the audit and comply with applicable data protection requirements. All documentation shall be used solely for audit purposes.

The approach should include, but not be limited to, the actions outlined below:

- Request and hold a formal kick-off meeting with representatives of the Company and the Client to understand the project and roles and responsibilities of each of the individuals involved in the financial management of the project and clarify any specific issues related to scope and methodology of the audit exercise.
- At the outset of the audit, the Auditor will agree a document request list with the Company, covering all financial, contractual, procurement and supporting documentation required to complete the audit.
- The audit approach (remote, on-site, or hybrid) will be determined by the Auditor in agreement with the Company; however, most supporting documentation for sampled transactions will be provided electronically, resulting in limited need for physical interaction during the audit.
- Examination of project financial transactions for the period under review against the requirements set out in the key project documents listed below (to be made available following contract award), including all records supporting invoicing and milestone payments, such as:
    - The head contract,
    - Amendments to the Company's head contract,
    - The Project Management Manual,
    - Any other formal correspondence between the Client and the Company which may have effect on the focus, direction and expenditure activities of the project.
- Review and validate invoices submitted by the Company for milestones payments, fees, and reimbursable expenses, including sample-based testing, to ensure that:
    - The basis of calculation aligns with the contractual terms and conditions.
    - Milestone payments billed to the Client correspond to milestones duly achieved and supported by evidence of delivery against agreed deliverables.
    - Deliverables have been formally reviewed and approved by the appropriate authority within the Company.
- Review the procurement process and procedures and select a sample for the period under review and ascertain that:
    - Transparent and open systems are in place to ensure negotiations for contracts (goods and services) are competitive and represent good value for money and assess whether the processes and procedures in place are sufficient to prevent risk of fraud.
    - Appropriate procedures are in place to document and manage conflicts of interest that may arise from related party transactions
- Review the Project asset register to ensure is up to date and confirm:
    - The physical existence and conditions of assets in the offices.
    - That assets have been fully recorded with clear identification marks as per the information on the asset register.
- Review the Terms of Reference for the contract (and subsequent amendments) to ascertain the extent to which the Company has complied with specified reporting requirements.
- Any suspected fraud, irregularity, or significant non-compliance identified during the audit shall be promptly escalated to the Company, in accordance with agreed escalation protocols.

- The Auditor shall document the audit methodology applied, including risk assessment, sampling approach, and key judgements, to support the audit conclusions.
- Where applicable, the Auditor will review the status of prior audit recommendations and validate actions taken by the Company.

6. Deliverables

- Audited financial report (hard and soft copies) for the period noted.
- A management letter, which should highlight any observed weaknesses in the system of internal controls, the impact on the delivery of Project objectives and the recommendations for managing the identified issues. The letter shall include a clear findings log (issue, risk rating, recommendation, responsible owner, target date), with prioritisation based on the severity of the identified risks and express an opinion on the cost effectiveness, accuracy and completeness (i.e. value for money) of the financial transactions for the period under review.
- A statement of compliance with Client terms and conditions as contained in the Company's contract.
- A verification report on project funded assets.

7. Audit timetable (indicative)

Activity	**When**
Kick off between the Company and audit team	Week 26 October 2026
Audit fieldwork	2-6 November 2026
Draft report submission	20 November 2026
Company review of draft report	27 November 2026
Comments provided to auditor	4 December 2026
Final report submission	11 December 2026

8. Coordination of the audit

The Auditor will report to the PPM Project Director.

The Auditor will submit a draft of each review to the Company for factual verification. Following incorporation of any factual corrections, the deliverables will be finalised and presented to the Client by the Company. At this stage, it is expected that the Company will have already provided all relevant supporting evidence to enable the Auditor to reach its conclusions; consequently, the scope for submitting additional evidence should be limited to avoid unnecessary delays to the audit process.

At the outset of the audit, the Auditor shall agree a document request list and an interview schedule with the Company. The Auditor will also provide regular (e.g. weekly) status updates, including progress against the agreed plan, emerging findings or risks, and any delays or constraints requiring attention.

9. Specification of the Service Provider

The Auditor is required to meet the following minimum specifications:

- An accountancy/audit firm licensed to practice in the United Kingdom.
- The Audit Firm should be experienced in applying latest audit tools and techniques.
- The audit firm must deploy adequately resourced personnel with appropriate professional qualifications and relevant experience, including demonstrable expertise in auditing projects of comparable size, complexity, and nature.
- The Auditor will have adequate technical and operational systems to conduct the audit and will be able to provide evidence of having done so previously.
- Minimum quality requirements shall include: (i) compliance with applicable auditing standards; (ii) clear linkage of findings to evidence; (iii) practical, actionable recommendations; and (iv) timely delivery in line with the audit timetable.
- The Audit Firm should demonstrate proven experience in auditing projects funded by government and/or bilateral and multilateral donors, including familiarity with applicable public sector financial regulations, donor compliance requirements, and reporting standards, and a track record of delivering audits in accordance with such frameworks.
- The Auditor must be independent of the Company and the Project, and free from any conflicts of interest, in accordance with the IFAC Code of Ethics for Professional Accountants.

In addition, the Auditor is required to meet one of the following minimum specifications:

- The Auditor is a member of a national accounting or auditing body or institution which in turn is a member of the International Federation of Accountants (IFAC).
- The Auditor is a member of a national accounting or auditing body or institution. Although this organisation is not a member of the IFAC, the Auditor commits him / herself to undertake this engagement in accordance with the IFAC standards and ethics.

10. Indicative Cost

An annual budget of up to £10,000 (exclusive of tax) has been allocated for external audits of this project.