

# Terms of Reference

## on Internal Audit Services

### The Project at a Glance

|                                  |  |
|----------------------------------|--|
| <b>Title of the Project</b>      | Bangladesh Regional Waterway Transport Project-I (BRWTP-I) (1st Revised)     |
| <b>Implementing Organization</b> | Bangladesh Inland Water Transport Authority (BIWTA), Ministry of Shipping    |
| <b>Funding sources(s)</b>        | IDA (Cr. No. :5842-BD)   |
| <b>Package Name</b>              | Internal Audit Service   |
| <b>Package Number</b>            | Service Ref. No BRWTP-S18  |
| <b>Market Approach</b>           | Open-National  |
| <b>Assignment duration</b>       | Project period (to be ended in December 2025)                                |
| <b>Location of assignment</b>    | Within project area in Bangladesh  |
| <b>Contracting Entity</b>        | Project Director, Bangladesh Regional Waterway Transport Project-I (BRWTP-I) |

### 1. Background:

The People's Republic of Bangladesh has received an SDR 254 million Credit from the International Development Association (IDA)– a member of the World Bank Group– for financing the cost of the Project, being implemented by the Bangladesh Inland Water Transport Authority (BIWTA) under the Ministry of Shipping and intends to apply part of the proceeds for procuring the services of Internal Audit for its Project Implementation Unit (PIU).

The development objective of the project is to improve transport efficiency, reliability and safety for passengers and cargo on priority inland waterways along the Chittagong-Dhaka-Ashuganj Inland Water Transport Corridor of Bangladesh. The project is also being implemented within the broader context of the BBIN (Bangladesh, Bhutan, India, and Nepal)/Eastern Corridor regional program which aims to facilitate the movement of passengers and cargo on multimodal transport networks for the benefit of traders, transporters, producers, passengers and communities in Bangladesh, Bhutan, India, and Nepal.

The Project consists of 3 (three) major components: (i) Improved Inland Waterway Navigation (**Component 1**) will include work to maintain and increase advertised depths and to delineate channel routes through provision of long-term navigation and utilizing the mechanism of performance based contracts (PBCs); (ii) Improved Services at Priority Inland Waterway Terminals and Landing Stations (**Component 2**) to support the development of two cargo terminals, four passenger terminals and 14 landing ghats (stations); and (iii) Institutional Capacity Development and Sector Sustainability (**Component 3**) comprising of a series of activities to support overall enhancement of the management systems and human resources capacity of BIWTA for modern, efficient, and high quality management of the IWT sector in line with international standards.

BIWTA, an autonomous body established under the Ministry of Shipping, is the implementing agency of the Project and is responsible for its overall implementation, management and monitoring. BIWTA was set up for development, maintenance and operation of inland water transport and waterways in Bangladesh. Among its functions BIWTA is responsible to:

- Develop, maintain and operate inland river ports, landing ghats and terminal facilities in such ports or ghat; and
- Develop the most economical facilities for passenger traffic to ensure comfort, safety and speed on mechanized craft.

Implementation of the project involves, among other activities, procurement of goods, works and services of substantial values through a number of contracts, including one large performance-based contract (PBC). It is necessary to build an adequate support structure from resources both within and outside BIWTA to

process these contracts and to carry out other project implementation activities. The institutional arrangement agreed between the World Bank and GoB is to set up a PIU with personnel deputed from within GoB as well as contracted from the market for various durations within the project implementation period. One such contracted firm will be that of the Internal Audit.

The project is being implemented by the Ministry of Shipping through the Chairman, BIWTA. Chairman BIWTA has overall responsibility for project implementation, including fiduciary compliance. The Project Director, BRWTP-1 Project is also being responsible for overall financial management and operation of the designated account. The project will be implemented over a period of tentatively seven years. All works will be completed in year tentatively six of the project. A dedicated Project Implementation Unit (PIU) has been set up nearby the BIWTA's office for day-to-day implementation and monitoring of the project activities. At present the Project needs very essentially to select internal audit firm.

The intention of engaging an internal audit firm is to have Project Financial Statements (PFSs) which will enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting period. The project books of accounts provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project. The implementing agency maintains adequate internal controls and supporting documentation for transactions.

## **2. Objective(s) of the Assignment:**

The primary objectives of the internal audit are to review and report on:

- Reliability of the Financial Management system, financial data and report at all tiers of operation;
- Adequacy and effectiveness of the accounting, financial and operational controls;
- Internal Control Systems: completeness, written instructions, effective implementation and frequency of review and up-dating;
- Level of compliance with the established policies, plans and procedures;
- Interim Unaudited Financial Report (IUFR): completeness, timeliness, occurrence, measurement, recording, regularity including eligibility and propriety; and
- Assets: completeness, existence, recording, safeguard and utilization for the purpose intended.

In addition to the above, the objective of the internal audit engagement is to provide an independent, objective assurance and consulting activity designed to add value and improve the project's operations. It is intended to help the project accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance process. The objective is achieved by examining, evaluating and reporting on the adequacy of the projects control environment via number of individual audit assignments each year. Based on this work, advice and recommendations will be made where necessary, as to how procedures can be improved to manage the risks faced in achieving project objectives.

- Internal audit shall be an independent and objective activity for providing assurance and consulting services designed to add value and improve the activity of the project.
- Internal audit shall assist the project in the achievement of its goal by applying a systematic and disciplined approach to evaluate and improve effectiveness of risk management- both procurement and financial aspects, control and management process.
- Internal audit shall be performed in accordance with the International Standards for Internal Auditing, the Code of Ethics of internal auditor and in compliance with the following principles:
  - 1) Independence and objectivity;
  - 2) Competence and due care;
  - 3) Integrity and confidentiality.

### **3. Nature of Internal Audit:**

The Internal Audit shall support the project in the achievement of its goals by:

- Identifying and assessing the risks in the project operations;
- Evaluating the adequacy and effectiveness of financial management and control system in relation to --
- Preventive and detective controls;
- Risk identification, risk assessment and risk management by the Project;
- Reliability and comprehensiveness of financial reporting (IUFRR), entity financial position for the relevant financial year and operating information;
- Efficiency, effectiveness and economy of operations;
- Safeguarding assets and information;
- Performance of tasks and achievement of goals;
- Providing recommendations for improving activities in the project.

### **4. Scope of Services, Tasks (Components) and Expected Deliverables:**

#### **4.1 Scope of Services and Tasks:**

The scope of internal audit activity includes examining and evaluating the policies, procedures and systems which are in place to ensure: reliability and integrity of information, compliance with policies, plans procedures, laws and regulations; safeguarding assets; economical and efficient use of resources; and accomplishment of established objectives and goals for operations or programs.

The overall scope of works of the internal audit is but not limited to:

- a. Reviewing the operations of the financial management system including the project Financial statements, internal controls and compliance with financial agreements of all the agencies;
- b. To provide project management with timely information on agencies financial management aspects of the project to enable follow up actions;
- c. To provide project management with timely information on communities project financial management systems and suggest follow up action ;
- d. Transactional review of expenditures incurred by PIU on sample basis ;
- e. Physical verification of work and assets on sample basis.

The audit should be carried out in accordance with the local as well as International Standards as would be applicable for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and should include such tests and controls necessary for performance of the audit. Specific areas of audit should include the following; although not limited to:

- a. Assessing the adequacy of the project's financial management system, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls exercised by the project and suggestions of improvement, if any;
- b. Ascertaining the extent of level of compliance with established policies, plans and procedures of the GoB, including those agreed under the legal agreement;
- c. Verifying that the funds received under the project have been used in accordance with the financing agreement, with due attention to economy, efficiency and utilized only for the purposes for which the financing was provided;
- d. Verifying Assets: Completeness, existence, recording, safeguard and utilization for the purpose intended including, physical verification of sample of assets;
- e. Verify that the expenditures charged under the project are eligible for financing, correctly classified and all necessary supporting documents, records, accounts and contracts have been

- kept in respect of all project transactions/activities. The clear linkages exist between the accounting records, IUFs claims and Project Financial statements;
- f. Developing an appropriate system of accounting and financial reporting exists, on the basis of which IUFs are prepared and submitted for reimbursement;
  - g. Verify and develop efficiency and timeliness of funds flow mechanism at the level of PIU and institutions for implementation of project activities;
  - h. Ascertaining the reliability of integrity, controls, security and effectiveness of the operation of computerized system; and
  - i. Review BRWTP1's risk management plans, financial policies, procedures, records, accounts and plans and appraise the effectiveness by which BRWTP1 meets its objectives.

The Internal Audit team will deem the adequacy of controls necessary in all areas and will seek to confirm that the PIU Management have taken necessary steps to achieve these objectives.

That includes:

- reviewing systems and operations and appraising the adequacy of controls;
- recommending improvements to systems and procedures;
- advising on appropriate systems of control and other operational matters;
- appraising the extent of compliance with established policies, procedures and plans;
- assessing the accuracy of management information;
- maintaining a continuous review of the disbursements; and
- being involved in the design, implementation and testing of planned controls when major changes are made to various administrative systems but shall not be responsible for the detailed implementation of such systems.

#### 4.2 Expected Deliverables:

1. Inception report explaining the detailed work plan
2. Interim Audit report on Audit with suggestion to the client.
3. Final Annual Internal Audit report with necessary suggestions.

#### 5. Team Composition & Qualification Requirements for the Key Experts (and any other requirements which will be used for evaluating the Key Experts under Data Sheet 21.1 of the ITC) :

| Sl No.                  | Position           | Qualification   | Expertise  |
|-------------------------|--------------------|---|--|
| <b>Key Professional</b> |                    |   |  |
| K-1                     | Team Leader        | Master in Accounting/ Finance /MBA<br>FCA/CA/CMA/ACCA | Minimum of 10 years post qualification experience as practicing Chartered Accountant. Must be experienced in working as Team Leader/ Deputy Team Leader /Project Manager of similar assignment of at least one donor/IDA funded project. |
| K-2                     | Audit Manager      | Master in Accounting/ Finance /MBA<br>CA/CMA/ACCA     | Minimum of 5 years post qualification experience as practicing Chartered Accountant.   |
| K-3                     | Financial expert   | Master in Accounting/ Finance/MBA                     | Working experience with NGOs/CDD operations  |
| K-4                     | Procurement expert | Graduate in Engineering/ Masters in                   | Working experience with NGOs/IDA/Donors funded project   |

|                             |                 |   |  |
|-----------------------------|-----------------|---|--|
|                             |                 | Accounting/Finance/Economics/<br>MBA/or equivalent degree |  |
| <b>Non-Key Professional</b> |                 |   |  |
| NK-1                        | Senior Auditor  | Master in Accounting/<br>Finance/MBA                      | Working experience with any<br>public/ private organization. |
| NK-2                        | Junior Auditors | Graduate in Accounting/<br>Finance/MBA                    | Working experience with any public<br>/private organization. |
| <b>Others Staff</b>         |                 |   |  |
|                             |                 |   |  |

The proposed Consultant Team Composition will be reviewed during evaluation of proposal. The Consultant/Audit Firm is encouraged to add in their proposal required staffing pool as non-key experts as to accomplish assignment, but they will not be accounted for evaluation.

## 6. Reporting Requirements and Time Schedule for Deliverables :

- (a) The audit will be conducted at the Project office and filed offices. The audit will cover status of previous work performed by the audit team. The audit shall cover the period from July 2016 to December 2025 and the duration of the audit shall be maximum 30 days for each year;
- (b) The Consultant shall have to submit the Methodology and Work Plans for Audit in their technical proposal;
- (c) Internal Audit Report shall contain:**
  - 1) Inception Report : (only for first year)
  - 2) Interim Audit Report : (Half-Yearly) and
  - 3) Final Annual Internal Audit Report: for each fiscal year.
- (d) The Internal Auditor will provide half- yearly Interim Report and Annual Internal Audit Reports to the project highlighting findings to enable the management to take timely action. The annual report shall bear copy of previous interim report This will be in the form of a Management Letter (including an executive summary highlighting key issue for management) which will inter alia include;
- (e) Comments and observations on the financial management records, system and controls that were examined during the course of internal audit;
- (f) Deficiencies and areas of weakness in systems and controls and specific recommendation for their improvement;
- (g) Compliance with legal agreements and comments, if any, on internal and external matters affecting such compliance;
- (h) Matters that have come to attention during the internal audit that might have a significant impact on the implementation of the project; and
- (i) Any other matter that the internal auditors consider pertinent.

### **(j) Time Schedule for Deliverables:**

The audit reports are required to be done as follows:

| Sl No. | Description of Deliverable | Submission Deadline  |
|--------|----------------------------|--|
| 01     | <b>Inception Report</b>    | The report to be submitted to the Project Director within 15 days effective date of the contract (only for first year) |

|    |   |   |
|----|---|---|
| 03 | <b>Interim Audit Report</b>               | An Interim Audit Report on audit with suggestion to the Client shall be submitted to Project Director within 20 days after completion of the audit to be conducted at the middle of each fiscal year .                    |
| 04 | <b>Final Annual Internal Audit Report</b> | The Final Annual Audit Report along with copy of previous Interim Report with necessary suggestion shall be submitted to the Project Director within 30 days after conducting audit at the end stage of each fiscal year. |

## 7. Client's Input and Counterpart Personnel :

- a) The Internal Auditor to be engaged as Consultant shall provide services with due diligence and should become familiar with the project, and with the relevant policies and guidelines of the Government and the Development partner (including those relating to disbursements, procurement and financial management and reporting).
- b) The Client/Project Authority will provide the Consultant all required information and facilities briefed below:
  - Access to all documents, correspondence, and any other information relating to the project and deemed necessary by the Internal Auditor;
  - Available copies of the Project Financial Manual, Project Operational Manual (POM), Financing Agreement, guidelines, policies and procedures of GoB and Development partner;
  - The engaged Internal Auditor should obtain and maintain satisfactorily document evidence to support their conclusions;
  - Client will provide a working room provided with internet facilities at/near Project office to facilitate the Consultant's working persons (maximum 3) in providing assigned services ;
  - No transports facilities would be provided to the Consultant;
  - No computer or PC for use by individual staff working with the Consultant will be provided- the Consutant shall have to be equipped with such logistic supports in accomplishing the assignment.

## 8. Audit of Project IUF (Interim Unaudited Financial Report):

The project financial statement called IUF; the IUF will depict the annual funding sources and usages under components designed in the table below as prime segments of the project activities; auditor would require clear understanding on components and relevant sub-components with detailed review of the project documents.

The payments would encompass the payments against receipts of fund for the works, goods, consultancy services and training and also the operating costs of the project.

Furthermore, the detailed tasks that are to be carried out are outlined below:

- An assessment of the adequacy of in and adherence to the Program financial management systems, including internal controls. This would include aspects such as adequacy and timeliness of accounting, financial and operational controls and the need for nay revision; level of compliance with established policies, plans and procedures reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; sample verification of assets and liabilities;

- The books of account required to be maintained as per the project financing agreement, Government financial rules and Project Financial Management manual, as well as BIWTA financial manual have been maintained and are up to date;
- That all transactions as recorded in the books of accounts are supported by adequate documentation and that monthly accounts are rendered in applicable situations to the Ministry assigned bodies in a timely manner and are reconciled;
- Clear linkages exist between different accounting records including account books and the IUFRRs and the activities are appropriately classified into sub-components in the monthly abstracts and the figures are reconciled with the quarterly accounts rendered to the IDA;
- An assessment of compliance with provisions of financial agreements, especially those relating to accounting and financial matters;
- That all funds received under the Program have been used in accordance with the financial agreements, with due attention to economy and efficiency and only for the purposes for which the financial was provided;
- That expenditures charged to the program are eligible expenditures and have been classified correctly;
- That the funds flow process is working effectively, and the time lines as defined in the financial manual are being met;
- That the system for monitoring security deposit deducted from contractors is adequate and all statutory deductions have been made from the running bills;
- That the funds are utilized for the program in which it was intended for and are not being utilized for activities outside the Program;
- That fund is not parked in the bank accounts outside the designated account especially at year end;
- Adequacy and adherence of the internal control systems on tranche release and monitoring of funds released to the project and that issues identified in the audit report of the concurrent auditors are adequately dealt with by the project;
- That the consolidation process followed at the various levels of the program is adequately followed and an adequate and reliable data base exists for each program;
- That the beneficiary contribution is being adequately reflected in the financial statements;
- To submit a table on the contract awarded in the audit period and completed and not completed, contract of prior period completed and not completed during audit period with agreed completion date and percentage achieved in both in volume and value.

## **9. Applicable Auditing Standards:**

- Audit methodology to set out in collaborated compliance with the:
- International Standards for the Professional Practice of Internal Auditing;
- GOB and Ministry of Finance regulations and controls exercised on ADP (Budget) allocations;
- Bangladesh Standards of Auditing as deemed relevant on project operations;
- Memorandum of agreements between Government and development partners and supplementary agreements with the project if any;
- The World Bank mandates (Financing Agreement/ PAD);
- Compliance to the relevant laws in the implementation of the project;
- Compliance to the project financial management manual in practice;
- Internal auditors must exercise due professional care by considering the ---
- Extent of work needed to achieve the engagement's objectives;

- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

#### **10. Strategic Audit Plan :**

As an aid to managing the audit function and to set priorities, a rolling six years' strategic audit plan will be prepared and presented to PIU's Finance & Admin. cell annually for comment and recommendation for Project Director's approval. In formulating the audit plan and annual work program, the Team Leader, Internal Audit must consult with PIU's cell heads including FMPS and the Project Director.

The strategic audit plan must:

- be sufficiently comprehensive so as to identify the auditable areas and activities;
- take into consideration an assessment of risk associated with auditable areas and activities, the internal control environment, results of previous audit and materiality;
- be prepared having regard to achieving an appropriate balance between regularity and efficiency audits;
- provide a schedule of audits to be undertaken with the resources available during the period covered by the plan; and
- allow flexibility to accommodate special tasks and projects if requested by the Project Director.
- be costed in accordance with any submitted proposal for service.

#### **11. Responsibilities of the Management of the Project:**

Bangladesh Regional Waterway Transport Project-1 (BRWTP-1) is committed to ensure the existence and continuing efficiency of arrangements for proper management of the project's resources, including:

- Enabling the project to meet its intended objectives;
- The establishment of procedures and systems for proper and effective management of human and financial resources;
- The establishment of accounting procedures and systems for proper accountability of resources;
- Effective oversight of resources; and
- Timely audit and presentation of annual financial statements.

#### **12. Audit Area Project Implementation Unit (PIU):**

That there is adequate internal control environment system, tools to carry out the operations;

- That there is appropriate established policy and action plan (Governance & Risk Mitigation);
- That there is compliance and effective identification of weaknesses therein;
- That all external funds have been used in accordance with the conditions of Legal Agreements, with due regard to economy, efficiency and effectiveness and only for the purposes for which the financing was provided;
- That counterpart funds have been provided and used only for the purpose for which financing was provided;
- That goods and services financed under the program have been procured in accordance with the term of the agreed procurement rules, contract and those are properly recorded, and that inventory and stores are regularly verified;
- That all expenditures and disbursements made are appropriately authorized, vouched and correctly classified;

- That necessary supporting documents, books of accounts, records and accounts (including a fixed asset register for all significant fixed assets procured by the project) have been kept;
- That there are well defined procedures for preparation of financial monitoring reports and that these are sent to world bank and other stakeholders in a timely manner;
- That annual financial statement of Bangladesh Regional Waterway Transport Project-1 (BRWTP-1) have been prepared in accordance with consistently applied International Accounting Standards and give a true and fair view of the financial position of the Program and of its resources and expenditures on the reporting date; and
- That Downward Accountability Framework is well defined and implemented properly.

### 13. Duration of the Assignment:

The Audit firm would be hired for a period of at least two months of each year (one month at the middle and one month at the end stage of each fiscal year) and Total period of contract would be throughout the period of July 2021 to December 2025 (4.5 years). However, the contract will be signed for a period of 4.5 years as shown below, but extendable for the contract depending on the satisfactory completion of assignment during the previous year. Further, based on the performance assessment, extension letter shall be issued for the the next year.

| SL No. | Financial Year  | Internal Audit  |
|--------|---|-----------------|
| 01     | 2021-2022 (+inputs since the commencement of the project as well as year-based individual report for each year) | To be conducted |
| 02     | 2022-2023   | To be conducted |
| 03     | 2023-2024   | To be conducted |
| 04     | 2024-2025   | To be conducted |
| 05     | 2025-2026   | To be conducted |

### 14. The payment schedule:

Payment will be made upon submission of yearly final internal audit report (Recommendation report for improving activities in the project) subject to the acceptance of the internal audit and recommendation report by the Project Authority and the World Bank as well.

1. **20%** (Twenty percent) on the Contract Price: Upon submission and approval of Final Internal Audit Report (FIAR) for FY 2020-2021 (+ Strategic Audit Plan + FIAR of previous 4 FYs).
2. **15%** (Fifteen percent) on the Contract Price: Upon submission and approval of Final Annual Internal Audit Report for FY 2021-2022.
3. **15%** (Fifteen percent) on the Contract Price: Upon submission and approval of Final Annual Internal Audit Report for FY 2022-2023.
4. **15%** (Fifteen percent) on the Contract Price: Upon submission and approval of Final Annual Internal Audit Report for 2023-2024.
5. **15%** (Fifteen percent) on the Contract Price: Upon submission and approval of Final Annual Internal Audit Report for 2024-2025.
6. **15%** (Fifteen percent) on the Contract Price: Upon submission and approval of **Draft Final** Internal Audit Report covering for FY 2025-2026.
7. **05%** (Five percent) on the Contract Price: Upon submission **Final** Internal Audit Report covering for for the year of July 2016- December 2025.

Payment against Reimbursable expenses will be made upon submission of bill/voucher etc. ( if any) VAT & Tax will be deducted as per applicable law of Bangladesh.

#### **15. Procurement Method:**

The Consultant/ Audit firm will be hired by Fixed-budget Based Selection (FBS)/Open National Method following the Guidelines for *Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by the World Bank Borrowers ( January 2011- revised July 2014)*.

#### **16. Type of Contract:**

Type of Contract will be Lump-Sum basis and local taxes (AIT & VAT) will be deducted from the contract price as per applicable law of Bangladesh.

#### **17. Eligibility of the Firm:**

The consulting firm should fulfill the following requirements:

- Legal establishment for a minimum of three years (proven document) ;
- Experience in similar assignments with proven track record of development project audit specially IDA funded project in Bangladesh ; and
- All audit staff undertake continuing professional activities and at least all proposed Key Experts shall maintain membership of pertinent professional bodies.

Besides the above the following are required for eligibility:

1. Company Registration and Financial statement (last Year);
2. Reputed Registered **Chartered Accountant (CA)** firm in Bangladesh
3. Audit Reports (Last 5 years);
4. Bank Solvency Certificate;
5. Bank Name, Branch name, account number, account type, closing balance etc;
6. Audited certification has to be attached with the audit report ;
7. Project completion certificates from clients for similar projects; and
8. Resource personnel qualification for the project.

The short listed Consultant will be provided standard RFP document to submit Technical and Financial proposals.

#### **18. Project representative for communication:**

The Consultant/Audit firm will work in close cooperation with PIU staff of the project. However, the Consultant will be directly responsible and accountable to Project Director for their services and activities. The contract is performance based, and payment would be based on achievement of key tasks and outputs completed within the stipulated time.

#### **19. Institutional Arrangements:**

The Consultant, throughout the assignment, will work closely with the Client's Representative(s) who will take regular feedback and make decisions associated with the assignments.