

Government of the People's Republic of Bangladesh
Office of the Project Director
Bangladesh Municipal Water Supply and Sanitation Project (BMWSSP)
Department of Public Health Engineering (DPHE), DPHE HRD Center (7th floor), 36-
37, Bir Uttam AK Khandaker Sharok, Mohakhali, Dhaka – 1212.
IDA Credit No. 6437-BD and AIIB Loan Number : 0068-A (COFN C1590)

ToR for Audit of WSS Unit of Municipalities by Private Audit Firm

1. **Project Title :** Bangladesh Municipal Water Supply and Sanitation Project (30 Pourashavas)
বাংলাদেশের ৩০টি পৌরসভায় পানি সরবরাহ ও স্যানিটেশন প্রকল্প
2. **Sponsoring Ministry/Division :** Ministry of Local Government, Rural Development & Co-operatives/Local Government Division.
3. **Implementing Agency :** Department of Public Health Engineering (DPHE)
4. **Background of the Project :**

Government of Bangladesh through the Department of Public Health Engineering (DPHE) under the Ministry of Local Government, Rural Development and Cooperatives (MLGRD&C) had been implementing provision of safe and sustainable water services under different Project both in rural and urban areas of Bangladesh. DPHE has taken a World Bank and AIIB Co-financed Project for strengthening the WSS services delivery system along with infrastructure development at secondary town level/selected municipalities. Project aims to address capacity deficits by: (i) infrastructure provision and operationally sustainable services delivery by private sector; (ii) institutional capacity strengthening of municipalities to enable them to play increasingly central roles in planning and supervision of services delivery by private sector; and (iii) strengthening DPHE to focus more on policy and facilitation roles (away from direct infrastructure provision).

The Project's approach is part of the national law and policy to devolve water and sanitation responsibilities to the local governments in order to ensure sustainability and cost-effectiveness. It directly supports the SDG target of improved services (with piped water and fecal sludge management) in municipalities, along-side strengthening institutional capacities of municipalities to provide universal access to improved water and sanitation services in a financially sustainable manner. This involves changing mindsets and operating principles and developing the private sector. In addition, efforts will be made towards identifying opportunities for women to increase their participation in planning and implementation of water supply and sanitation services, expand their employment opportunities, and promote their safety.

The Project will be implemented at 30 selected Municipalities/Pourashavas of Bangladesh through the establishment of Project Management Unit (PMU) headed by a full-time Project Director with staff in adequate numbers, qualifications and experiences and shall be responsible for Project management, financial management, safeguards, performance evaluation, monitoring and reporting.

To full fill the terms and conditions laid down in the Financing Agreement (FA) and Project Appraisal Document (PAD), now the PMU intends to hire a private audit firm to carryout audit on Financial Management System and Financial Statements maintained/prepared by the WSS unit of the Municipalities.

5. Objectives and Targets (of Beneficiaries) of the Project :

The Overall Objectives of the Project are:

The overall objective of the project is to increase access to improved water supply and sanitation services in selected 30 municipalities, and strengthen the municipalities' institutional capacities for delivering improved water supply and sanitation services.

The Specific Objectives of the Project are:

- To establish piped water supply system in the selected 30 Pourashavas;
- To improve sanitation and septage management in selected 30 Pourashavas;
- To improve drainage system in selected 30 Pourashavas;
- To provide support immediate response facility for disasters and climate-induced emergencies;
- To provide support for institutional and operational sustainability of selected 30 Pourashavas;
- To strengthen institutional capacity of 30 selected Pourashavas to manage water supply and sanitation activities; and
- To strengthen DPHE for water and sanitation sector role for Pourashavas.

The Targets (of beneficiaries) of the Projects are:

- To establish scope for the people of 30 selected Pourashavas to access improved water supply of which total 6,00,000 people will be benefited during project period;
- To establish scope for the people of 30 selected Pourashavas to access improved sanitation services of which total 1,50,000 people will be benefited during project period.

6. Project Implementation Period:

Date of Commencement: July 01, 2019

Date of Completion: December 31, 2023

As per DPP project closing date is December 31, 2023. On the other hand as per financing/loan agreement credit/loan closing date is December 31, 2024. So there is scope to extend project period to match project period with loan agreement. In addition due to Covid-19, project implementation legging behind more than one year. To complete entire project activities, it will be required to extend project period. As such it is presumed that project may be extended.

7. Estimated Cost of the Project (BDT in lakh):

Total : 175150.00
GoB : 7950.00
PA : 167200.00

8. Mode and Source of Financing: GoB grant and IDA & AIIB credit/loan. Financing percentage for both financiers is 50:50

9. Objective of Audit Services:

The main objective of the audit is an independent review of Financial Management System, procurement and technical areas of Water Supply and Sanitation (WSS) Unit of the Municipalities to find out areas of improvement and to add value to the system and processes towards strengthening of institutional capacities of municipalities. The auditors will also review annual financial statements of the municipalities and provide an opinion on its completeness, accuracies and timeliness.

10. Auditors' Responsibilities:

The responsibilities of the auditor will include but not limited to the followings-

- (a) Measure the extent to which the project is achieving its objective and funds disbursed/ reimbursed from the project to the Operational Account(OA) of Municipalities are used for the intended purposes;
- (b) Examine, if the funds are used efficiently and effectively;
- (c) Ensure that corresponding figures shown in the project financial statement/IUFR and WSS unit financial statements are reconciled and verified;
- (d) Examine, the Municipalities management systems and performance to express a professional opinion on the overall performance of the WSS unit of Municipalities including technical standards, goals and deadlines for achieving project objectives;
- (e) Issue an opinion with respect to the implementing agency Municipality's compliance with the terms of the Implementation Partnership Agreement(IPA) and applicable laws and regulations in relation to financial aspects;
- (f) Review and check whether the WSS unit follows adequate systems on internal control and ensure that the responsibility to comply with the regulations including prevention and detection of irregularities and fraud;
- (g) Review the economy and efficiency achieved by the Municipalities in implementing the activities of the project including compliance of the procurement process with the procurement procedures outlined in the IDA Procurement Guidelines are followed;
- (h) Examine that the assets procured for the WSS unit exist at the location and validate that assets are used for the purpose they were acquired; and
- (i) Recommend measures for improving the performance of the WSS unit of Municipalities;

11. Scope of Services:

- (a) The audit would cover the operations of the Ring-Fenced WSS Unit of Municipalities under the project i.e. covering all receipts and application of funds.
- (b) The audit should be carried out in accordance with International/Bangladesh Standards on Auditing and FAPA Standard on auditing (ISA) and will include such tests and controls, as the auditor considers necessary under the circumstances. The auditor will examine the

adequacy and effectiveness of the WSS unit financial management systems including operation of the computerized system with particular emphasis on various financial and operational controls and recommends methods to improve or to create new ones where there are none. This would include aspects such as:

Financial reporting Controls: Properly record, process, summarize transactions, preparation of financial statements to permit preparation of timely and reliable Interim Unaudited Financial Report (IUFR) by the PMU.

Compliance Controls: Execution of transaction in accordance with appropriate authority, provision of loan Agreement and established policies, plans and procedures;

Safeguard Controls: Safeguard assets against loss or unauthorized use or disposition and ensure that all assets acquired are recorded in the books of accounts and asset register (s). The assets and stores have been maintained in appropriately secure storage facilities and have been accounted for using properly maintained inventory records which are reconciled periodically (at least annually) to the physical inventories.

- (c) Verify that corresponding figures shown in the project financial statement/IUFR and WSS unit financial statements are reconciled and verified;
- (d) Verify if goods and services financed under the project have been procured in accordance with the terms and conditions of the Financing Agreement, IDA/Public Procurement Guidelines and the approved procurement Plan.
- (e) Verify that documentary trail in support of procurement of goods and services including a Fixed Assets Register for all significant fixed assets procured by the WSS Unit and distributed from the project have been kept. Ensure that clear linkages exist among the books of accounts, physical existence of assets and report presented to project. The Fixed Assets Register should indicate the location of all significant Fixed Assets and should be verified with physical assets on a periodic basis.
- (f) Verify whether goods, services and works are being used for intended purposes and have achieved desired performance indicators.
- (g) Verify whether the payments to the contractors and third parties have been made in accordance with the provision of relevant contract, Financing Agreement and other applicable provisions. For this, the source documents for payments will have to be examined.
- (h) Examine the overall financial strength of the WSS unit and identify the reasons if the financial strength performance is low and recommend measures for the improvement.

12. Audit Period:

The audit will cover the fiscal years from 2021-22 to 2024-2025 (4 years)

Assignment A: Audit for FY2021-22;

Assignment B: Audit for FY2022-23;

Assignment C: Audit for FY2023-24; and

Assignment D: Audit for FY2024-25.

13. Coverage/areas of Audit:

The private auditor will not be assigned with the entire project cost and activities. They will be assigned with the revenue and expenditure of Ring-fenced WSS unit to be established in each municipality under the project. This is the major areas that will be covered under the private audit.

Sl. No.	Description of Items		Estimated Amount in BDT Million	Remarks
Receipts:				
1.	WSS revenue (Water tariff, enrollment fee, house connection fee etc.)	=	1200.00	
2.	Incentive/operational cost support	=	600.00	
3.	Support for institutional improvements and service delivery	=	560.00	For this head Receipts and payments must be equal
Payments:				
4.	WSS unit operational costs	=	1500.00	
5.	Disbursement for institutional improvements and service delivery	=	560.00	For this head Receipts and payments must be equal

Support for Institutional Incentives: The project will measure the performance of municipalities through predetermined indicators such as citizen engagement, FM, revenue systems, WSS organization, water supply coverage, water quality, number of hours of supply, complaint redressal, sanitation coverage, solid waste collection, containment structures in households and GAP implementation. An annual performance scorecard for each Municipality will be calculated by a third-party agency and municipalities would be rewarded additional funding based on its score. The Municipality will be able to use all the additional support toward ensuring expansion of fecal sludge treatment, including co-composting and drainage improvements that are in compliance with the climate-change-sensitive designs as determined by the engineer.

Support for institutional improvements and service delivery: The project will provide subsidy grants to municipalities to help meet operational expenditures including those of FSTPs during the first three years of operations as they ramp up their revenue collection and become financially sustainable.

Disbursement Arrangement for WSS Unit : Each municipality will open and operate two separate “Operational Accounts (OA)” to receive funds from the DA/project bank account. However, the disbursement to the OA will be the same amount of the approved invoice to be submitted by the contractors to the municipality for payments. Therefore, the amount to be transferred to the OA from DA can be included in the statement of expenditures at the PMU level since the transfer is made against an approved invoice and the original copy of which will be retained at the PMU of the project for audit purposes. The FM unit at the PMU will reconcile the operational accounts of municipalities monthly to ensure payment of all the invoices. However, funds to be transferred to the municipalities will follow the process mentioned below:

Reimbursement for Water Supply and Sanitation Operations and Maintenance (O&M) expenditures: Each municipality will open a separate ring-fenced WSS account. The municipality will use this account for receiving revenues, subsidy grants from project and making payments (to Operators of water, service contract/s for sanitation, etc.). After the first quarter when monthly reimbursements will be made, O&M expenses will be reimbursed from the DA on a quarterly basis to the WSS account upon submission of actual bills/invoices received from the water supply Operator duly verified by the TSU. Based on the performance and revenue targets, each municipality will be eligible to receive reimbursements to match O&M expenses at the rate of BDT 50 for each BDT 100 revenue collected. On the other hand, in selected municipalities where Fecal Sludge Treatment Plants are implemented, the Project will provide full operations support for FSTP operations for up to three years.

Disbursement for Institutional Performance Scheme based on scorecard: Funds for the municipal performance incentive grants will flow to the Operational Account (OA). The performance scores will be based on an annual third-party institutional performance audit and customer survey that will award scores under performance scheme of each municipality based on pre-determined formula and conditions to be applied. The scores and rewards will be announced by the DPHE PMU within 120 days of the completion of the financial year. A 'negative list' will be prepared by the project and shall be followed by the municipalities to determine eligibility of the expenses to utilize these proceeds. For example, eligible expenses may include parks and recreational facilities, waste management etc. The actual disbursement to the OA will be the same amount of the approved invoice to be submitted by the contractors to the municipality for payments. In such case, municipality will ensure payments to contractors within 7 days from receipts of funds from Designated Account. Basically this account will be used for only specific payments for which fund received from the project account. The balance of this account will be nil as and when payment is completed against fund received.

FSTP capital expenses and operating costs: Three municipalities that are implementing FSTPs will receive funds into their Operational Account (OA) from the DA to make payments directly. The extent of disbursement to the OA will be made upon production of certified invoice for FSTP capital works. In such case, municipality will ensure payments to contractors within 7 days from receipts of funds from Designated Account.

14. Reporting and Implementation of Audit:

- (a) The auditor will provide a report on Municipality's WSS Unit management-highlighting findings on areas of audit coverage for the period mentioned above.
- (b) The audit report would also cover matters, that have come to attention during the audit, that might have a significant impact on the implementation of the project ; and
- (c) Any other issues that the auditor considers pertinent.
- (d) The auditor will submit draft report to the PD, BMWSSP, DPHE within three months of closing the financial year ended on 30 June of each year). The draft audit report should be discussed with the project authorities within 15 days of its submission. The audit report

shall be finalized within 15 days after obtaining comments on the draft audit report. Five copies of final audit reports should be submitted.

- (e) The auditor will work in close co-operation with WSS Unit in carrying out the work. If any major difficulties or problems are encountered in carrying out his/her work. The auditor shall report this to the PD, BMWSSP, DPHE/Chairman of Project Audit Review Committee so that remedial measure may be taken.

In addition to the audit report, the auditor will prepare a “management letter”, in which the auditor will:

- a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- b) identify specific deficiencies and areas of weakness in internal control & systems and controls and make recommendations for their improvement;
- c) communicate matters that have come to attention during the audit which might have a significant impact on the WSS unit operation.

15. Reference Manuals/Guidelines/Documents

PMU will provide relevant financial information, i.e copy of DPP, IPA, PIM, Credit/Loan Agreement, PAD, DFIL and WB Guidelines. The Consultant should be given access to all legal documents, correspondence and any other information associated with the projects & WSS unit and deemed necessary by the auditor.

16. The Audit Plan and Facilitation

Prior to undertaking the assignment, the auditor will prepare an audit plan which indicates the type of transactions to be checked and methods/technics of auditing and schedule of field visit. The auditor should arrange, in consultation with project management, an entry meeting at PMU of the project before commencement of audit where respective WSS unit representative will participate. In addition the auditor should arrange an exit meeting on draft audit report before finalization of Audit report.

17. Key Staffing Requirement and Schedule:

The Private Audit Firm should be independent and a renowned chartered Accountancy firm under registered with ICAB. The firms affiliated with a big and reputed international firm will get preference. The firm should have extensive experience in statutory audit/internal audit/operational audit/performance audit of similar type of foreign aided project not less than total cost of BDT2000.00 (Two thousand) million each. Experience in IDA financed Project auditing will be an added qualification. The firm should have proven experience in computer based financial management system. The key personnel in the audit team and their minimum qualifications and experience are described below :

(a) Team leader:

- (i) Professional qualification- Fellow member of ICAB or from any IFAC enlisted professional bodies);
- (ii) Experience-Minimum 10 years post qualifying experience as a practicing member of a big firm of which minimum 5 years relating to foreign Aided Project Financial Audit.

(b) Audit Manager:

- (i) Professional- Associate Member of ICAB or from any IFAC enlisted professional bodies;
- (ii) Experience- Minimum 5 years post qualifying experience as a practicing member of a reputed firm of which minimum 2 years relating to foreign Aided Project Financial Audit.

(c) Audit supervisor:

- (i) Professional- M. Com in Accounting/Finance with CA knowledge level/article ship completed;
- (ii) Experience- Minimum 3 years of experiences in the field of audit.

In addition to the above the team should include sufficient member of appropriate staff (audit seniors, Junior Staff etc.) commensurate with the size and scope of the assignment.

18. Mode of Payment:

Payment by BMWSSP, DPHE for services performed under this agreement for fees and reimbursable cost shall be made to the firm in accordance with the following provision hereto.

All payments shall be made from office of the Project Director, BMWSSP, DPHE.

The firm will have to submit all invoices with all necessary supporting documents to the office of the Project Director, BMWSSP, DPHE.

Annual assignment wise Audit fees will be paid as per following schedule:

- I. 50% of the each annual assignment fees will be paid within 14 days from submission of draft audit report.
- II. Remaining 50% of the each annual assignment fees will be paid within 14 days from submission of final audit report.

19. Selection Method of Audit Firm

The Audit Firm will be selected in accordance with the Fixed Budget Selection (FBS) Method.

All Technical Proposals shall be evaluated on the basis of the marking criteria set forth in the relevant paragraphs Data Sheet of RFP and they will be ranked according to the merit. Minimum qualifying score for technical proposal is 70%. The Proposals that exceed the total budget indicated in the Data Sheet of RFP shall be rejected.

The Client will select the Consultant who secured the highest-ranked for Technical Proposal and does not exceed the budget indicated in the RFP and invite such Consultant to negotiate the Contract in accordance with the World Bank's "Procurement Regulations for IPF Borrowers" July 2016 (Revised Nov 2020).

Annex-I: Location of the Project

Division	District	Pourashava
Dhaka	Narayanganj	Tarabo
	Tangail	Madhupur
		Dhanbari
		Bhuapur
	Rajbari	Goalanda
Chattogram	Brahmanbaria	Akhaura
	Chattogram	Banashkhali
		Chandanaish
	Cumilla	Homna
		Debidwar
	Feni	Parashuram
	Lakhmipur	Ramgoti
Noakhali	Senbag	
Rajshahi	Bogura	Kahalu
		Shibganj
	Joypurhat	Panchbibi
		Akkelpur
	Natore	Bonpara
		Baraigram
	Nawabganj	Nachole
	Rajshahi	Katakhali
		Taherpur
		Bagha
Sirajganj	Royganj	
	Ullahpara	
Khulna	Jashore	Chaugachha
	Meherpur	Gangni
Sylhet	Moulavibazar	Borolekha
		Kamalganj
Mymensingh	Jamalpur	Islampur

Annex-II: ABBREVIATIONS AND ACRONYMS

AIIB	Asian Infrastructure Investment Bank
BMWSSP	Bangladesh Municipal Water Supply and Sanitation Project
DA	Designated Account (SND account with schedule commercial bank)
DFIL	Disbursement and Financial Information Letter
DPHE	Department of Public Health Engineering
DPP	Development Project Proforma/proposal
FCA	Fellow of Chartered Accountant
FM	Financial Management
FSTP	Fecal Sludge Treatment Plant
GAP	Gender Action Plan
GoB	Government of Bangladesh
IDA	International Development Association
ICAB	The Institute of Chartered Accountants of Bangladesh
IFAC	The International Federation of Accountants
IPA	Implementation Partnership Agreement
IUFR	Interim Unaudited Financial Report
KPMG	Klynveld Peat Marwick Goerdeler
LGD	Local Government Division
MLGRD&C	Ministry of Local Government, Rural Development and Cooperatives
OA	Operational Account
PA	Project Aid
PAD	Project Appraisal Document
PIM	Project Implementation Manual
PMU	Project Management Unit
PWC	PricewaterhouseCoopers
SDG	Sustainable Development Goal
TSU	Technical Support Unit
WB	World Bank
WSS	Water Supply and Sanitation

