

**Terms of Reference
For
Selection of Internal Audit Firm [Package No. SF-03(B)]**

Background

Bangladesh has made rapid social and economic progress in recent decades, reaching lower-middle income status by 2015. Gross domestic product (GDP) growth averaged close to 6 percent annually since 2000 and, according to official estimates, accelerated to over 8 percent in FY19. However, the pace of poverty reduction slowed in recent years even as growth accelerated, particularly in urban areas. International migration has played an important role in the country's development narrative in terms of household income and macroeconomic stability. By migrating to overseas markets, workers are able to earn three to four times more than what they had earned before migrating. About eight percent of households in Bangladesh have at least one member working as an international migrant. The international migration flows are substantial with 597,000 workers being deployed from Bangladesh into overseas markets every year, on average, in the 2012-17 period. Remittances flowing back to migrants' households are also important, equivalent to about two-thirds of total income in households with at least one international migrant. The international remittance flows are also critical for aggregate growth and macro-economic stability.

The COVID-19 pandemic brought about major disruptions to economic activity domestically and through declining exports and remittances. Involuntarily returning migrant workers and lower future demand for Bangladeshi migrants may also produce upward pressure on the labor supply. Returning migrants in response to COVID pressures and demand slowdowns in major destinations for Bangladeshi migrant workers also affect the medium-term demand for workers from Bangladesh. Involuntarily returned migrants could face additional challenges even after return, and there are no programs to support their transition back to the domestic economy.

The Government of the People's Republic of Bangladesh has received a Credit from the World Bank in 2021 towards the implementation of the "**Recovery and Advancement of Informal Sector Employment (RAISE)**" for a period of 5 years in the amount of USD 200 million. Through the two implementing agencies – Palli Karma-Sahayak Foundation (PKSF) and the Wage Earners Welfare Board (WEWB) - the Project provides support to enhance access to earning opportunities for low-income youth, including COVID-affected and returning migrants, in urban areas.

The WEWB intends to utilize part of the Credit for the services of a firm or a consortium of firms, hereinafter called "Consultant" who will work as an Internal Auditor.

Objective

The main objective of the consultancy is to help improve Project operations by installing a systematic, disciplined approach through evaluation and improvement of the effectiveness of risk and fiduciary management, control and governance. The objective could be achieved by examining, evaluating and reporting on the adequacy of the Project's control environment of individual audit assignments for the period. Based on this work, advice and recommendations will be made as necessary, as to how procedures can be improved to manage the risks faced in achieving project objectives. Primary objectives of the consultancy would be to:

- Check reliability of the financial management system, financial data and report at all tiers of operation of the Project;
- Assess the adequacy and effectiveness of the accounting, financial and operational controls;
- Strengthen internal control systems: completeness, written instructions, effective implementation and frequency of review and updating;
- Check the level of compliance with the established policies, plans and procedures;
- Assess financial reporting: completeness, timeliness, accuracy, reliability and for the purpose oriented of different stakeholders;
- Review assets: completeness, existence, recording, safeguards and utilization for the purpose intended. Preventive and detective controls;
- Identify risks, assess risks and risk management by the Project;
- Assess the efficiency, effectiveness and economy of operations;
- Review safeguarding of information;
- Evaluate the performance of tasks and the achievement of goals;
- Provide recommendations for improving activities in the project.

Scope of Services

This audit solely refers to the risk-based internal audit, which will be carried out in accordance with the International Standards of Internal Auditing issued by the Institute of Internal Audit and should include such tests and controls necessary for performance of the audit. The scope of internal audit activity includes examining and evaluating the systems which are in place to ensure reliability and integrity of information, plans procedures, laws and regulations; safeguarding assets; economical and efficient use of resources; and accomplishment of establishing objectives and goals for operations or programs.

The coverage of the audit will span from Project effectiveness to closing. The first audit will cover the period from effectiveness to June 30, 2023 (FY2021-22 and FY2022-23). The next audit will cover FY2023-24 until Project closing. The Inception Report will describe the work plan and working areas for the whole assignment.

The scope of internal audit should include but not be limited with the following:

- Assess 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.
- As certain the extent of level of compliance with statutory obligations, requirements of various rules & regulations as applicable to WEWB, established policies, plans and procedures including those agreed under the legal agreement.
- Review the accounting systems and procedures, statements & Project accounts.
- Verify monthly bank transactions and reconciliations;
- Verify the procurement plan and procedures to ascertain whether it is implemented in accordance with the government procurement rules and World Bank guidelines;
- Review and verify the recruitment of Project staff and selection procedures with the compliance of World Bank and Government system.
- Review and verify the appointment of consultant and selection procedures with the compliance of World Bank and Government system.
- Verify 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.
- Review whether the budgeting & accounting practice meets established International/National standards and that appropriate estimates and judgments have been made; also review the books of accounts;
- Check the integrity of financial statements, including other formal reports relating to its financial performance and will review significant financial reporting issues and judgments contained therein;
- Assess reliability and completeness of the financial information generated by the accounting software and the MIS.
- Verify the assets procured under the Project as well as scrutinize the asset register.
- 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.
- Determine the application of financial reporting, risk management and internal control principles, and for monitoring the effectiveness of Financial Operations;
- One welfare Center in every division to be visited by the firm of the audit period (every year);
- Confirm that an appropriate system of accounting and financial reporting exists, on the basis of which statement of expenses (SOE) claims/interim unaudited financial reports (IUFRRs) are prepared and submitted for reimbursement.
- Examine & evaluate the adequacy of manpower for sound & effective operation of the Project.
- Justify the proper utilization of manpower appointed in the project including National Consultants.
- Review and verify the effectiveness of consultant services both in PMU & field level activities.
- Any other works as per requirement of management.

Applicable Compliances

- Audit methodology should be in compliance with the:
- General Financial Rules of Government;
- Budgeting & Planning Process of Government;
- Guidelines for Release & Utilization of Funds for Development Projects; Circulated by Finance Division, Ministry of Finance;

- “Delegation of Financial Powers for Development Projects” issued by Finance Division, Ministry of Finance;
- Technical Project Proposal (TPP);
- The Project Appraisal Document (PAD);
- Financing Agreement of the Project (FA);
- World Bank Disbursement Guidelines for Projects;
- Public Procurement Act 2006 & Rules 2008.
- VAT & Income Tax Practice in Bangladesh;
- Agreements & contracts between Project & its Consultants.

Qualification & Experiences:

Professional Firms of Chartered Accountants having at least 10 years experiences in the internal audit field are most relevant for this assignment. A list of key staff that must be included in is provided below. However, the Consultant is free to propose non-key staff beyond this list.

Indicative/tentative key staff	Indicative/tentative duration	Indicative/tentative role
Team Leader	To be proposed by firm, but be no less than 120 days.	Planning, scheduling, staffing, guiding and monitoring work progress and leading the assessment of the adequacy of the project’s financial management system including internal controls;
Audit Manager	To be proposed by firm, but be no less than 160 days.	Assisting the Team Leader in audit planning and execution;
Audit staff (2)	To be proposed by firm, but be no less than 160 days each.	Assisting with the compilation and review of relevant documents for auditing; and the completion of audit engagements;

Composition of the Proposal

Eligible qualified firms are requested to submit their bids to deliver the above scope of work specific services. The following documents should be included in the bid proposal:

a. Required Documents:

- Up to date valid Trade license.
- Tax Identification Number (TIN) with tax clearance Certificate for the latest fiscal year.
- VAT Registration copy.
- Incorporation Certificate
- Financial Solvency certificate from any Scheduled Bank.

b. Composition of Technical Proposal:

- All copies of experience certificate and contract must be submitted.
- Profile of the firm;
- Work plan & methodology;
- Experience of staff assigned to implement the services;
- Person-month schedule;
- Usage of technical support/program;
- Details of any past experiences in implementing of similar projects;
- Letters of reference from previous task/tasks;
- CVs of team members;

c. Team Requirements:

The members in the audit team, their minimum qualifications and their anticipated inputs are indicated below:

- The audit team shall be led by a Team Leader with a minimum of 10 years post-qualifying experiences as a Chartered Accountant. Preference shall be given to those who have proven knowledge and experience in dealing with IDA funded project. Team Leader’s CV and specialty on financial management expertise and/or monitoring & expertise evaluating should be enclosed.
- The audit team shall include expert who have working experience with development project operations, and have procurement knowledge in order to facilitate the contract review process.

The audit team shall include minimum 02 number of appropriate audit staff. Working experience on IDA-funded projects will be preferred.

d. Other requirements:

- Experience above desired year will get preference (Team Leader and Audit Manager)
- Soft copy/hard copy of any 03 audit report of last 03 years will be attached with the documents submitted. Work with IDA have to be attached with the document will get priority (Without mentioning the name of institution/organization or delete the name of institution/organization).
- Audit firm's profile and office arrangement and staffing will be attached.
- Any recognition or profession experience and expertise will get preference.
- The expression of interest with valid firm seal and signature should be submitted to the Project Director's office.
- Only the firm with the best qualifications and relevant experience will be invited to submit its technical and financial proposals for negotiation..

Audit Area & Duration

- The audit will be conducted at the PMU office in Dhaka. Sample field audit (at least 10% of project area) will be needed for confirming the field activities of service providers including firms/NGOs & others.
- The duration of each audit shall be 120 days (from inception to final report). The auditor shall submit the final report within 120 days from the date of commencement.

Reporting

The Project Director will establish and implement procedures for review and acceptance of the Consultant's output while maintaining the independent and impartial standing of audit findings.

Each Report shall contain:

- Executive Summary
- Summary of audit findings with recommended actions.
- Detailed assessment of each audit areas which include review of the internal control system that captures the audit issues and recommendations with the following details:
 - Issue Title
 - Observation
 - Impact or risk
 - Cause
 - Specific Recommendations
 - Priority
- Categorization of audit findings by risk severity: High, Medium and Low.
- Classification of possible causes of audit findings.

Deliverables

The auditor will submit the following reports:

First round deliverables

1. Inception Report: The report to be submitted to Project Director within 20 days from the commencement of the Audit.
2. Draft Audit Report for FY 2021-2022 and FY2022-2023: The draft report will be submitted to the Project Director within 60 days from the commencement of audit. The project management will review the draft report and respond to the auditor's query (if any) before finalizing the Audit Report. Also, the project will share the draft audit report with the World Bank, and it will be finalized subject to review and acceptance of the World Bank.
3. Final Report: The Final report will be submitted to the Project Director within 120 days from the date of commencement and will be shared with the World Bank.

Second round deliverables:

4. Draft Audit Report for FY2023-2024 and FY2024-25: The draft report will be submitted to the Project Director within 60 days from the commencement of audit. The project management will review the draft

report and respond to the auditor's query (if any) before finalizing the Audit Report. Also, the project will share the draft audit report with the World Bank, and it will be finalized subject to review and acceptance of the World Bank.

5. Final Report: The Final report will be submitted to the Project Director within 120 days from the date of commencement & will be shared with the World Bank.

The duration of the project may be extended in future. In that case the contract period can also be extended for satisfactory performance. For this, proposals for third and fourth deliverables must be submitted separately and the 3rd & 4th deliverable will be evaluated separately.

Mode of Payment

The mode of payments for conducting the Internal Audit services will be as follows:

Deliverable	Payment
<u>First round deliverables</u>	
1	10% of the contract value for submission and acceptance of Inception Report
2	20% of the contract value for submission of Draft Report
3	20% of the contract value for submission and acceptance of Final Report
<u>Second round deliverables</u>	
4	25% of the contract value for submission of Draft Report
5	25% of the contract value for submission and acceptance of Final Report

Others

The Consultant would be given access to all relevant documents, correspondence, and any other information relating to the Project. The Consultant should be 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). The Consultant should obtain and maintain satisfactory document evidence to support its conclusions.

1. The Consultant must exercise with due diligence by considering:
 - Extent of work needed to achieve the engagement's objective;
 - 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.
2. The Consultant will provide the findings to enable the Project authority to take timely action. This will be in the form of a Management Letter (including executive summary highlighting key issues for management) which will inter alia include:
 - Comments and observations on the financial management records, system and controls that were examined during the course of internal audit;
 - Deficiencies and areas of weakness in systems and controls and specific recommendations for improvement;
 - Compliance with legal agreements and comments, if any, on internal and external matters affecting such compliance;
 - Matters that have come to attention during the internal audit that might have a significant impact on the implementation of the Project; and
 - Any other matter that the consultant considers pertinent.

Remuneration

All costs for carrying out the assignment, including staff time and resources as well as costs associated with travel, should be included as part of the financial proposal.

Selection Method

Consultant Qualification Selection (CQS).

Under this method, the submitted Expressions of Interest will be reviewed. Only the firm with the best

qualifications and relevant experience will be invited to submit its technical and financial proposals for negotiation.

Selection of the Consultant will follow the Selection Procedures for Consulting Firms as described in the World Bank Procurement Regulations for IPF Borrowers, July 2016.

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