

Annex II: Terms of Reference for Management and Implementation Support Consultant (Firm)

a. Background:

1. The GoB in accordance with its Public Financial Management (PFM) Strategy & Vision and Medium Term Rolling Action Plan 2007-12, has undertaken a major reform program “Strengthening Public Expenditure Management Program” (SPEMP) that addresses all key elements of PFM. It aims at strengthening supply side elements of financial management system within the Executive and demand side elements of CAG, legislative oversight committees’ oversight. Strengthening the CAG and legislative oversight constituted an important element of government PFM Strategy & Vision and Medium Term Rolling Action Plan. The four development partners who previously provided stand alone Technical Assistance (TAs) agreed to jointly support government initiated SPEMP and financing through Bank administered MDTF. The proposed Strengthening the Office of the Comptroller and Auditor General Project is one of those three key components of SPEMP (i) Deepening MTBF and Strengthening Financial Accountability (ii) Strengthening the office of C & AG, and (iii) Strengthening Parliamentary oversight- to be implemented by three discrete entities- Ministry of Finance, CAG and Parliament Secretariat (PS).

2. The OCAG is required by the Constitution to audit and report on all of the public accounts and the reports are to be submitted to the President to be tabled before the Parliament but there are no requirements for them to be made public. The reports are intended to provide government agencies with practical recommendations for improvement in their financial management practices and to enable the Parliament through its scrutiny committees to exercise oversight over the adequacy of PFM in the Executive. In theory, the OCAG serves the accountability relationship between Parliament and the Executive, by conducting an independent professional audit examination of the public accounts. In practice, the OCAG has been unable to provide the full range of useful audit services. Timely publication of audit reports has been a major difficulty. The most recent Auditor General’s Report that has been made public is for 2005-06, and there are backlogs of audit reports to be submitted to Parliament for scrutiny.

3. The key project development objectives (PDO) are to (i) strengthen the institutional arrangements for the Office of the Comptroller and Auditor General, (ii) improve the quality of audit practices and expand the audit scope, and (iii) enhance the capacity of FIMA to supply professional public sector financial management staff.

b. Institutional Arrangements:

4. The project will be implemented under the overall supervision and management of the CAG through a Project Management and Coordination Unit (PMCU). Project Management and implementation structure will consist of: (i) Project Management and Co-ordination Unit (PMCU) and (ii) Project Steering Committee. The PMCU will be headed by a full time Project Director (PD) and will be assisted by support staff.

5. **Project Steering Committee:** Headed by the CAG, the committee will advise, guide, and hold quarterly review meetings with PMCU.

c. Objective and Scope of Work:

6. The main objective of the consultancy is to provide project implementation and management support services to the Project Management and Coordination Unit (PMCU) of the CAG. As a part of the consultancy, the consultant shall support the project management in carrying out the project implementation activities under various components, achieving M&E benchmarks, facilitating the preparation of project and provide other services as and when necessary.

7. The Project has 3 core components and most components have sub-components or activities which make up those components. The consultant firm will be led by a Team Leader and will have Technical Experts to assist the Project Director in implementing all Components and Sub-components described in this TOR.

8. To achieve project objectives as well as meet result indicators, three key components and sub-components are designed:

Component 1: Strengthening the Institutional Arrangements of OCAG

9. This component aims to strengthen the institutional context within which the OCAG operates, so as to provide for greater impact from the audits that are conducted by OCAG. The component has 2 sub-components: 1.1 - Strengthening institutional arrangements and relationships, and 1.2 - Project management and coordination.

Sub-component 1.1 – Strengthening institutional arrangements and relationships

10. Introduction of an Audit Act is a priority of the OCAG. An Audit Law is needed to support the provisions of the Constitution and provide adequate independence of the OCAG to audit and report in accordance with international standards (ISSAI 10 and 11). A draft Audit Law that has been submitted by the OCAG to the Ministry of Finance will enable the C&AG to carry out “any audit that is internationally recognized and accepted” and that explicitly authorizes the C&AG to make comments to the media “for the purpose of public information over the submitted audit report”. Other sections of the draft Audit Law will provide the C&AG with greater independence from the Executive in respect of appointing staff, contracting experts and preparing his budget. Advice and counsel will be provided as needed in the process of finalization of the draft Audit Law.

11. The draft Audit Law includes a provision that the CAG may make rules for the purpose of fulfilling the objectives of the proposed Audit Act. The Bank has provided advice on a series of matters that might be addressed through legislation. To implement the Law, interpretations and guidance is needed in respect of the rules required to fulfill the objectives of the Audit Law.

12. A key role of the OCAG, and all SAIs, is to provide timely and relevant information to the parliamentary oversight institutions in support of their considerations and deliberations on matters raised in audit reports. The information needed includes status of audit observations and recommendations, i.e. information on the actions taken by the Executive in response to the audit reports issued by the

OCAG. Prompt and timely advice from the OCAG to the parliamentary committees is needed. Within each financial year, there are an extremely large number of audit report observations and recommendations that require tracking and follow up.

13. The SCOPE project includes complementary work on improving audit processes to provide more analytical and focused audit reports, to help reduce the overload on Parliament's financial oversight committees, and on developing handbooks and protocols for liaison between the OCAG, executive agencies and the PAC on examination of audit observations and recommendations. A computerized Audit Management System to be initiated under SCOPE provides a possible opportunity for SPEMP B to develop a database of audit observations and actions and related actions by the Executive and PAC reviews. Staff will need to be assigned to support PAC operations and trained in delivering assistance that the PAC needs in reviewing audit observations and recommendations. In addition, the SPEMP-C project is supporting the three financial oversight committees of Parliament to eliminate the backlog of audit reports awaiting legislative scrutiny. Principles need to be developed on how to distinguish the most significant types of finding for application in future audit reporting and the best mechanisms for resolution and reporting.

14. Prompt response by line ministries to audit recommendations and objections is essential for improved public expenditure management, management of public resources and strengthening governance. Audit committees have been formed in each ministry under OCAG and MoF initiatives and the OCAG will need to be assisted in developing approaches to work cooperatively and effectively with these committees. Procedures are needed to provide structured and regular interactions between the OCAG and line ministries and agencies for timely responses to audit observations and recommendations – this will support successful implementation of the objective of improving accountability for public expenditure of the SPEMP-A project. Consultants will be engaged to meet with a sample of Audit Committees in the Ministries to develop appropriate arrangements for reliance on internal audit and routine resolution of queries, as well as special arrangements for clearing any backlogs. The consultants will also meet with a sample of Secretaries to discuss mechanisms for senior management involvement in resolving audit issues. Training would be provided to OCAG staff in dealing with Parliamentary and governmental Audit Committees effectively on resolving audit observations and recommendations.

15. Key activities include:
- i. Providing advice and counsel as needed in course of finalization of the legislative processes;
 - ii. Formulating rules required to ensure that the functional and operational independence of the OCAG intended by legislation is achieved in practice;
 - iii. Conducting stakeholder workshops as needed on the implications of the new audit law;
 - iv. Developing an OCAG database that monitors the status of audit observations and recommendations and follow-up audit report results and supporting processes for operating and reporting from the database;

- v. Developing and implementing a strategy and action plan for a more effective interface between OCAG and PAC/PUC;
- vi. Developing and implementing protocols and arrangements to discuss and resolve audit observations and recommendations with line ministries and agencies, and in particular with line agencies' Audit Committees and senior management.

Sub-component 1.2 – Project Management and Coordination

16. For convenience arrangements for project management have been included in Component 1. This activity will finance the cost of the project management and coordination unit which will be anchored in OCAG and will be responsible for change management processes, financial management, procurement, and monitoring and evaluation. The management and implementation arrangements of this project will be coordinated with the implementing activities of SCOPE. It would be appropriate for the GoB to look for likely partners to include developed SAIs for an appropriate and effective implementation of the SPEMP –B project. Well developed SAIs would fully complement the current skill sets available within the reform teams at OCAG and would have the requisite expertise and resources in staffing, methodologies and experience that are needed for the work set out under this project. Generally this project needs the varied skills and knowledge that only a working national or provincial government audit body can supply and invitations to suitable interested SAIs would produce the most effective partnership.

Component 2: Enhancing Quality and Extending Scope in OCAG

17. This component aims to improve the quality and scope of audits conducted by the OCAG. The component has 2 sub-components: 2.1 – Enhancing the quality of external audit, and 2.2 – Expanding the scope of external audit.

Sub-component 2.1 – Enhancing the quality of external audit

18. Improved quality assurance to assure that new audit methodologies are applied is a key strategic business activity of the OCAG. While this is predominantly an internal process, external assessment is an essential element. The INTOSAI standard ISSAI 20 ‘Principles of Transparency and Accountability’ provides guidance on the procedures and actions needed for accountability and the public reporting needed for transparency. The Peer Review will include assessment of how the OCAG can meet this standard and identify steps to improve the OCAG audit quality management system. The recently signed Memorandum of Understanding (MOU) between INTOSAI and donors (including the World Bank) supports the conduct of peer reviews by INTOSAI member SAIs. The first peer review will serve as a baseline benchmark for the project and the second an update on progress. The project will finance the engagement of a suitable SAI to conduct two peer reviews of OCAG during the life of the project to provide expert advice to the OCAG in enhancing audit quality. A consultant will be used to arrange the peer reviews and assist the OCAG to prepare for and respond to the reviews.

19. Use of external professionally qualified experts to improve the quality of audit is a key strategic business activity. Long term sustainability of a well performing SAI needs continual updating, and contact with expert SAIs and other professionals in

Bangladesh provides the necessary exchange of information to enable such updating to occur. Consultants would assist the OCAg to agree with SAIs on twinning arrangements and to facilitate periodic interchanges. Consultants would also assist the OCAg to identify worthwhile local expert in-sourcing to assist with specialist audits. Local consultant experts would then be hired to work with OCAg auditors on pilot projects producing audit guides and audit reports for Parliament.

20. For the OCAg to be efficient and effective, its staff must have the competencies to conduct and report high quality audits. There are very few qualified accountants amongst the 3,000 auditors in the OCAg. The training needs analysis conducted by SCOPE will be used to compare the skills of OCAg staff to competencies (knowledge and skills) that officers need to possess to attain minimum performance standards for the audit tasks contained in job descriptions. The results of this survey will be used by consultants skilled in SAI training to examine the OCAg human resources management plan and identify any additional information needed in respect of required competencies, job descriptions, skills inventories and training needs. Short term strategies to fill the need for professional skills through recruitment or outsourcing will be considered. The Training Unit will be supported with systems and IT equipment to manage and record the skills inventory and training plans. A further survey will be conducted later in the project to assess progress.

21. Increased use of computers in audit processes is a key strategic business activity. A critical part of the SCOPE project is to develop and pilot test the use of electronic audit working papers and computer-assisted audit techniques to provide for better audit evidence and better documentation of audit evidence supporting the audit report, thus leading to higher quality audits. Subject to demonstrated successful pilot experiences in SCOPE, the project will finance the rollout and scaling up of the computerized audit processes introduced by SCOPE to augment the automation of audit processes and management, including the networking of OCAg.

Sub-component 2.2 – Expanding the scope of external audit

22. This sub-component will provide experts from relevant SAIs to develop audit methodologies based on international standards and best practices for specialized audit areas. The support will be harmonized with that provided by the SCOPE project and each intervention will depend on the availability of audit staff, the audit work programs and demonstrated success of the pilot audits as a sustainable delivery of improved quality audit and audit reports. Audit topics that are considered by the CAG to be of high priority include:

- i. Budget Execution under MTBF
- ii. public procurement;
- iii. Public debt;
- iv. Revenue;
- v. Public works;
- vi. Forensic and investigative auditing; and
- vii. Environmental auditing.
- viii. Performance Audit

23. Another key activity under this sub-component will be to strengthen the audit organization to enhance audit coverage and improve service delivery. The GoB PFM Action Plan has a key action to restructure the audit directorates of the OCAG to meet the requirements of the strategic plans for PFM. This sub-component will support necessary revision of the current organization structure to implement the audit program that evolves during the project. Consultants would be used to provide the expertise in these types of audit to establish the best arrangements for their conduct and provide training to the Directorate staff in the methodologies. The project will finance consultants to develop a revised organization structure for OCAG, provide for audit methodology development and pilot audits for a restructured Local and Revenue Directorate, Works Directorate and Commercial Audit Directorate so that they can specialize in the distinct areas. In addition, the desirability of sector-wise directorates (e.g. Education, Health) will be explored for further developments in audit capacity.

Component 3: Enhancing the Institutional Capacity of the Financial Management Academy (FIMA)

24. The aim of this component is to build the faculty and management processes of FIMA to a level that it is able to deliver appropriate short courses in PFM, and that it is approved to deliver internationally recognized professional accreditation courses in PFM. Short course development by faculty or by acquisition from INTOSAI, and agreements with professional accountancy bodies¹ for professional accreditation courses, will provide the professional course resources for FIMA to become a centre of excellence in PFM training.

25. Expanding as necessary the SCOPE assessment, this component will finance consultants to identify, categorize and measure the staff skills and competencies required for all levels of the OCAG audit staff and audit officers (cadre and non-cadre) based on the internationally accepted competency frameworks for auditors; and prepare a consequent listing of an overall suite of courses and qualifications that FIMA should provide for OCAG audit staff. Similar activities will be conducted for accountants and for other PFM officers. The project will also finance consultants to review and assess the suitability of short courses provided by relevant SAI and PFM training institutions such as the INTOSAI Development Initiative, the National Academy of Audit and Accounts (India), National Institute of Financial Management (India) and National Accounting Institute (China), with a view to acquiring the rights to deliver appropriate short courses or inviting guest lecturers to deliver such short courses in Bangladesh. The component will also develop processes for FIMA to rollout the delivery of the training modules developed by SCOPE to relevant audit staff not covered by the SCOPE training.

26. The component will also include a review of available professional PFM accreditation courses such as those provided by the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Public Finance and Accountancy (CIPFA) and other professional accountancy bodies, and support to enable FIMA to enter into a Memorandum of Understanding as an approved agent for delivery of the accreditation courses in Bangladesh. Course fees for staff enrolled in the accreditation courses will be financed from project funds and as an incentive, a

¹ Professional accountancy bodies of developed countries have relevant course resources which could be acquired. In addition the assistance of the IFAC and its Developing Nations Committee can be sought to identify suitable course resources.

limited number of scholarships will be provided for the top achievers from the first batch of professionally qualified staff to pursue advanced studies overseas.

27. This component will also finance goods to equip the library, classrooms and computer labs of FIMA, including Global Distance and Learning Network (GDLN) facilities to enable FIMA to deliver local and distance learning and training. In addition, a twinning arrangement will be established with a public sector training institution to provide a peer review of the staffing, operations and management of FIMA, and to provide future opportunities for exchanging staff and curricula.

d. General Requirements of the Consulting Firm(s):

28. The consulting firm is expected to be well versed with the issues of a developing SAI and having thorough knowledge of international standards and best practices in the areas of Supreme Audit Oversight functions with specific focus on effective measures for enhancement of capacities, its governance structures, institutional arrangement and practices. Given the nature and type of this very large value assignment, the firm is expected to have experience of similar assignments including work experience in the developing economies/ countries, with demonstrated diverse range of skills and expertise with adequate resources to manage and handle such tasks with appropriate change management strategy. The firm may enhance its expertise and qualification through association with other firms either in the form of a joint venture or sub-consultant. It would be appropriate for the GoB to look for likely partners to include developed SAIs for an appropriate and effective implementation of the SPMP –B project. Well developed SAIs would fully complement the current skill sets available within the reform teams at OCAG and would have the requisite expertise and resources in staffing, methodologies and experience that are needed for the work set out under this project. Generally this project needs the varied skills and knowledge that only a working national or provincial government audit body can supply and invitations to suitable interested SAIs would produce the most effective partnership.

29. The lead consulting firm or joint venture of firms will require to have expertise and technical qualification in the respective highly specialized areas, including: (i) proven record of working with a developed SAI and sound knowledge about global practice on external audit oversight (ii) installation, commissioning and functioning of web enabled applications, MIS, Website, modern IT tools to automate business process (iii) clear understanding of the design, development, and implementation of training , capacity building quality enhancement and change management strategies, (vi) experience in legislative interface of SAI functions and sound knowledge on enhancing SAI linkages with financial committees and (vii) Expertise in developing methodologies to enhance SAI's relationship with executives and latter's response to audit findings(viii) practical understanding of media engagement with the affairs of SAI functions and audit findings.

30. The Team Leader (TL) of the consulting firm/consultants will have overall responsibility for managing project implementation. Beside the TL, the team of the consulting firm will include a number of technical experts both international and national with key responsibilities for delivering the activities defined in this TOR.

e. Duration of the assignment:

31. The implementation and management support consultant firm will provide services to the Office of the Comptroller and Auditor General in the implementation of the project for the entire project period which at this stage is estimated to be about three years. The process for the assignment is expected to start in the third quarter of 2011.

f. List of reports, schedule of deliveries, period of performance:

32. The project is proposed to be implemented over a period of three years is scheduled to be completed by FY 2014. The consultants will be responsible to the Project Steering Committee (PSC) through the PD for their activities and performance.

33. The implementing agency (consulting firm) will prepare an inception report, annual work plans, quarterly progress reports, quarterly financial reports, minutes of committee meetings, project final and mid-term progress reports, and will submit these to the PMCU, PSC and WB.

34. An outline/ synopsis of deliverables required from the consultancy for the Project are summarized below. The TOR at the time of request for proposal will provide more details.

- i. Project Inception Report to be presented to the Project Director and the Project Steering Committee within 6 weeks of commencement of the assignment.
- ii. (Quarterly progress reports covering status of the project Component and Activity-wise, reporting against milestones, risks, outputs, outcomes and based round reference to the M&E reporting structures applicable to the Project.
- iii. Draft reports to the Project Director and the Steering Committee for discussion and reconciliation of views, prior to the submission of the final reports.
- iv. One week prior to the commencement of Annual Project Review by the World Bank missions, the consultant must submit a comprehensive status and issues report to the Team Leader of each Mission.

g. Reporting Requirements:

35. The consultant will work in close collaboration with the Project Management and Coordination Unit of the OACG and will be primarily reportable to the Project Director who in turn will share consultants' deliverables with Project Steering Committee., relevant officials/stakeholders and World Bank and seek guidance as and when necessary.

h. Data, personnel, facilities and local services to be provided by the client:

Data:

36. All reports, documents, rules, regulation, policies, project documents, information etc. relevant to the assignment will be made available to the consultants for their examination and use in carrying out their work under the project.

Personnel:

37. OCAG will provide the services of a full-time Project Director along with required number of counterpart personnel, with the related costs borne by the project fund

Facilities and local services to be provided by the client:

38. The PMCU through the PD will provide all the available information, materials, documents to the consultant for smooth implementation of the assignment. Should any information be deemed as confidential, the consultants shall not disclose such information, to any person or group without written permission of the CAG and return all such information, documents and material to the CAG within the contact period.

Facilities to be provided by the consultant:

39. The consultant shall be entirely responsible for all other facilities such as office, transport facilities, logistics, necessary office furniture, equipments and maintaining necessary communication and coordination among the project personnel, individual consultants, and technical experts. The consultants is also expected to provide all necessary information about work permit and other information to the project management, comply with existing rules concerning tax, vat and other applicable rules for expatriate.

40. It is expected that PMCU and Consultants' office would be at the same location for ensuring appropriate coordination during project implementation.