

Government of the People's Republic of Bangladesh
Ministry of Local Government Rural Development & Cooperatives
Local Government Division

Terms of Reference(TOR)
for
Internal Audit Firm for
Bangladesh Rural Water Supply and Sanitation Project (GoB-WB)
Project No: BD-5075

Department of Public Health Engineering

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1. Background:

On the basis of growing concern over epidemic of water borne disease due to microbial contamination of drinking water, water supply system in Bangladesh has been shifted from surface water to ground water source because groundwater has been considered as almost safe from microbial contamination. Actually massive shifting toward ground water source has been started after independence of Bangladesh.

Tube well technology using groundwater made a commendable success achieving 98% coverage in rural Bangladesh. But arsenic contamination identified in ground water particularly in shallow aquifer in nineties has been emerged as a great challenge for the ground water based water supply system.

Followed by two random surveys conducted by DPHE-UNICEF, DPHE-BGS and Bangladesh Arsenic, Mitigation Water Supply Project (BAMWSP) conducted blanket screening in 271 Upazilas of the country shows that level of contamination is about 29% within the screened areas. However, the contamination level varies from 1% to over 90%. So, arsenic has been considered as the largest single problem for the water supply system in rural Bangladesh. Along with the awareness campaign, a set of technology has been developed and identified as a part of arsenic mitigation. National Policy for Arsenic and Implementation Plan for Arsenic Mitigation in Bangladesh 2004 mentioned a range of technology, such as, deep tube well, Dug well, Pond Sand Filter, Rain Water Harvesting etc. and recommended for gradual expansion for village piped water supply system.

The national rural water supply coverage in Bangladesh has been estimated as 97.4% according to the Multiple Indicator Cluster Survey (MICS) conducted by Bangladesh Bureau of Statistics and UNICEF (BBS/UNICEF, 2009). However this coverage has been reduced as 86% after arsenic contamination being adjusted. A survey on situation of Arsenic Mitigation has been conducted by DPHE/JICA in 2009 and revealed that Arsenic contamination is highest in the central part and lowest in the northern part of the country. The report indicated that 19 million people are in need for the public safe water option taking private tube wells into account. Based on situation analysis and after 2009 specially GOB-UNICEF project is working lot of arsenic contaminated upazilla / union apart that about 341 unions were based on arsenic contamination and water supply coverage. Apart from arsenic contamination, 42 unions were also identified in saline prone areas where service coverage is low due to the constraint of ground water source.

It was estimated that more than 90% people are using latrine and Less than 10% of the population currently practices open defecation, a sharp decline from 33% in 2003. This represents significant progress in shifting people from open defecation to fixed-place defecation However, the recent WHO-UNICEF Joint Monitoring Program 2010 reveals that more than 54% of the population has access to improved sanitation facilities. To make sanitation practice sustainable for the hygiene environment, improved sanitation needs to be expand through supply of latrine sets to ultra poor and poor households at subsidized rate, demonstration & capacity building of stakeholders including private producer and awareness campaigning.

Along with the point source, piped water supply using ground water and surface water source are considered to be a safe and viable mitigation option especially in high density villages. Although the present population covered by piped water supply is relatively insignificant, it is anticipated that a substantial percentage of population will use piped water supply in the near future. The majority of the pilot rural piped water supply schemes are developed by government agencies and operated by communities i.e. management committee; a few of the schemes are developed and operated by private sponsors/ operators. Compared to the single point water systems commonly used in Bangladesh, piped water systems in villages require higher investment costs and strong management, operations and maintenance frameworks that are now growing in Bangladesh in very limited scale. Bangladesh Water Supply Program Project (BWSP) supported by World Bank has piloted innovative service delivery models for rural piped water supply schemes with private sponsor involvement. Such models achieved success through involving small scale private operators in mobilizing resources. This initiative promoted private sponsors to plan, implement and manage rural piped water schemes sharing capital cost to ensure access to the poor households. The said project demonstrated Partnership with Private Sector model establishing partnerships between community and local private sponsors.



World Bank has expressed its intention to support Bangladesh Rural Water Supply and Sanitation Project for installation of village piped water supply system following Partnership with Private Sector model and taking lesson from the past project. The private partner (sponsor) will build, operate and handover the system to UP. However, upon satisfaction and agreement of the communities, the sponsor may continue to operate even after operating the system for certain period (10-12 years). It is to be mentioned that, in any case(s), if sponsor could not be made available for the village (s) identified as potential for pipe scheme following the feasibility study, the system will be installed through engaging private contractor with the active participation from Union Parisad and community. After construction the system will be handed over to community to operate the system.

The point options (such as, deep tubewell, Dug well, PSF, RWH etc.) under normal allocation will be implemented in target areas (very high and high priority union for arsenic contaminated areas and low coverage for the saline and iron prone areas) following the demand driven approach in consultation with communities and Union Parisad. This will also create a scope to develop and identify the area specific technology in the under served area particularly where safe water source is constraint. The point options demarcated for natural disaster will be installed in the natural disaster affected areas as declared by Bangladesh Government. If, the full or part of the provision still remain unallocated even upto middle of the project period, the midterm review will adopted the strategic framework to convert the unallocated provision under emergency to normal allocation for ensuring its full utilization during project period.

This project will also explore on quality sanitation for the improvement of environment through (i) awareness campaign; (ii) strengthen markets through capacity building of local private sector & demonstration of different technology (iii) increase the role of local governments to ensure that the quality and inclusiveness of sanitary access is sustained for all and (iv) Supply of latrine sets to the ultra poor and poor households of the selected unions.

2. Objective of Internal Audit Services:

The objective of the Internal Audit is to:

- (a) Measure the extent to which the project is achieving its objective and IDA, and GOB funds for the project are used for the intended purposes;
- (b) Examine, if the funds are used efficiently and effectively; Provide observation to identify improvement opportunities in both operating and financial performance.
- (c) Examine, the project management systems and performance to express a professional opinion on the overall performance of the project including technical standards, goals and deadlines for achieving project objectives;
- (d) Issue an opinion with respect to the implementing agency's compliance with the terms of the Financing Agreement and applicable laws and regulations in relation to financial aspects;
Issue a report highlighting on the status of internal control environment and provide recommendations for improvement.
- (e) Review and identify the economy, efficiency and effectiveness of "not subject to prior review contracts" in procurement, management of resources for training and capacity building, reporting of expenditure, lack of evidence supporting expenditure, assets and stock management, construction of water supply system and use of such facilities and limited supervision and assignment of appropriate human resources.
- (f) Examine that the assets procured for the project exist at the location and validate that assets are used for the purpose they were acquired for the organization
- (g) Recommend measures for improving the performance of the project;

3. Scope of audit Services:

- (a) The audit would cover the operations of the entire project i.e., covering all receipts and application of funds by GOB and the Development partner organizations. The auditor would visit the various Field Offices as considered necessary for the audit on a sample basis. The audit would also cover all cost-based consultancy or other contracts for which no supporting documentation is provided to implementing agencies by the consulting firm or other agency.
- (b) The audit should be carried out in accordance with Internal Audit Standards include such tests and controls, as the auditor considers necessary under the circumstances. The auditor will examine the adequacy and effectiveness of the



project 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 and summarize transactions to permit preparation of timely and reliable Interim Unaudited Financial Report (IUFR). Assess and report on whether the IUFRs submitted to IDA were prepared and presented supported by appropriate books and records.
 - **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 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. The auditor will select a representative of sample of contracts for both prior and post review thresholds (50% from prior review and 25% from post review contracts) in consultation with PMU and IDA.
- (d) 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 project have been kept. Ensure that clear linkages exist among the books of accounts, physical existence of assets and report presented to IDA. The Fixed Assets Register should indicate the location of all significant Fixed Assets and should be verified with physical assets on a periodic basis.
- (e) Verify whether goods, services and works are being used for intended project purposes including technical assistance provided for the project and have achieved desired performance indicators. In this regard, select a representative of sample of all the contracts and in case of large contracts containing large quantities, a sample size of 25% of the delivered quantities must be physically checked.
- (f) 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.
- (g) Verify whether application of project incremental operating cost has complied with the terms of the Loan Agreement. If the loan agreement details the increments in which these cost should be incurred ensure that there has been compliance with those terms.
- (h) Examine the timeliness of activities under project component (on a sample basis) to ensure that the deadlines and milestones set in the project designed are met. In this case, compare projection to the actual results to verify whether accurate forecast is made for the project and thereby disbursement targets met.
- (i) Examine the overall disbursement performance of the project and identify the reasons if the disbursement performance is low and recommend measures for the improvement.
- (j) Verify quality assurance procedures to ascertain whether the quality parameters are complied with.
- (k) Compare physical progress with financial progress and determine the variance with reason.
- (l) Compare actual progress with yearly targeted as per ADP and Development Project Proforma (DPP).
- (m) Determine causes of cost over run, its justification and impact on the project.

4. Audit period :

The audit will cover the fiscal years 2012-13 to 2015-2016 (4 years)

Reporting and Implement of Internal Audit:



- (a) The auditor will provide a report to project 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 Chief Engineer, DPHE within two months of closing the financial year (Here 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 Project Management Unit (PMU) 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 Chief Engineer, DPHE/Head of Audit Committee of the Project 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 systems and controls and make recommendations for their improvement;
- c. report on the degree of compliance of each of the financial covenants on the financing agreement and give comments, if any, on the internal and external matters affecting such compliance;
- d. communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project.

5. Key Staffing Requirement and Schedule:

The independent Audit Firm should be a renowned chartered Accountants firm affiliated with a big and reputed international firm. The firms should have extensive experience in internal audit/operational audit/performance audit of similar type of foreign aided Project not less than investment cost of Tk. 300.00 (Three hundred) crore 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:

- (j) Professional qualification- Fellow member of Institute of Chartered Accountants of Bangladesh (ICAB).
- (ii) Experience - Minimum 15 years post qualification experience as a practicing member of a big firm of which minimum 5-year relating to foreign Aided Project Financial Audit.

Audit Manager:

- (i) Professional -- Fellow Member of Institute of Chartered Accountants of Bangladesh (ICAB).
- (ii) Experience - Minimum 10 years post qualifying experience as a practicing member of a reputed firm of which minimum 3 years relating to foreign Aided Project Financial Audit.

(c) Auditor:

- (i) Professional - M. Com in Accounting/Finance with CA intermediate qualified.

- (d) **Other technical staff** - The audit firm may deploy other technical staff with requisite qualifications and experience such as Procurement Specialist, Contract Specialist (Civil works) to assure the quality of goods and works.



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.

6. Legal Support and Timing

The client will provide legal support to the consultant as set forth in the invitation letter or proposals for technical assistance. The client will also make available to the consultant all information and documents relevant to their tasks.

7. Other supports by the Client

DPHE will provide: Relevant financial information, Copy of Loan Agreement and Guidelines. The Consultant should be given access to all legal documents, correspondence, and any other information associated with the projects and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the IDA.

8. Distribution of marks for Evaluation of Technical Proposals

Sl	Description	Marks Distribution	Total Marks
01	Experience of the firm (Age, turn over & similar works done in last five years, foreign affiliation of the firms)		20
02	Qualification and competence of the key personnel for assignment		50
	a) Team Leader	25	
	b) Audit Manager	15	
	c) Auditor	10	
03	Adequacy of the proposed work plan and methodology in responding to the Terms and Reference		30
Total			100

Minimum qualifying score for technical proposal is 70%.

5 Marking Sub-Criteria

6 Background and Experience of the firm

Sl.	Description	Marking Criteria	Full marks
01	Age and working experience of the firm	Age, general experience and turn over of the firm	10
02	Foreign Affiliation	Affiliation from international reputed Audit Firm (from 4 big firm)	5
03	Relevant experience	(a)Experience of the firm in similar type of assignments in last 5(five) years	5
Total			20

B. Key Personnel:

Sl.	Marks Distribution	Full Marks
01	Team Leader Professional Qualification (FCA from ICAB)	5 marks
	- Experience as auditor. (15 years and above -100%) (10-14 years -75%) (Less than 10 years - 0%)	10 marks
	- Experience in similar assignment (10 nos. and above -100% & in a ratio for less than 10 Nos)	10 marks
02	Audit Manager Professional Qualification (FCA from ICAB).	5 marks
		15

	- Experience as auditor. (10 years and above -100%) (8 years -75%) (5 years -50%) (Less than 5 years - 0%)	5 marks	
	- Experience in similar assignment (8 nos or above -100%) (5-7 nos. -75%) (3 nos. -50%) (Less than 3 nos. - 0%)	5 marks	
03	Auditor Professional Qualification M.Com(Accounting/Finance) & CA intermediate qualified	5 marks	10
	- Experience in similar assignment (4 nos/2 years or . and above -100%) (3 nos. -75%) (2 nos. -50%) (Less than 1 nos. - 0%)	5 marks	
Total marks for key personnel			50

C. Work Plan, Proposal etc.

Sl.	Marking Criteria	Full marks
	Adequacy of the proposed work plan and methodology in responding to the Terms and Reference	
a)	Understanding of the assignment	05
b)	Approach and Methodology	10
c)	Work Plan	10
d)	Comments on TOR	05
Total		30

10. Financial Evaluation:

Financial Proposal will be opened after receiving IDA's no objection on the Technical Evaluation.

The Financial Proposal will be opened in presence of all the bidders (if any) who will be technically qualified.

11. Evaluation Criteria for selection of Consulting Firm

An Audit Firm will be selected in accordance with the Fixed Budget Selection (FBS) Method. The lowest Financial Offer (evaluated price) within the Budget Limit, among those that passed the minimum technical score (70%) shall be selected in accordance with the "Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers January 2011"

All Technical Proposals shall be evaluated on the basis of the marking criteria set forth in the relevant paragraphs and they will be ranked according to the merit. Minimum qualifying score for technical proposal is 70%.

12. Legal Support and Timing

The client will provide legal support to the consultant as set forth in the invitation letter or proposals for technical assistance. The client will also make available to the consultant all information and documents relevant to their tasks.

13. Other supports by the Client

DPHE will provide: Relevant financial information, Copy of Loan Agreement and Guidelines. The Audit Firm should be given access to all legal documents, correspondence, and any other information associated with the projects and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the IDA.

14. Mode of Payment:

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

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

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

Annual Audit fees will be paid as per following schedule:

- I. 50% of the annual fees will be paid within 10 days from submission of audit report.
- II. Balance 50% will be paid after acceptance of audit report by the project and World Bank.

