GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH

MINISTRY OF WATER RESOURCES

BANGLADESH WATER DEVELOPMENT BOARD

COASTAL EMBANKMENT IMPROVEMENT PROJECT, PHASE-1(CEIP-1)

TERMS OF REFERENCE
FOR
Consultancy Services for Conducting Internal Audit of Coastal Embankment Improvement Project, Phase-1 (CEIP-1)
For the FY 2019-2020, FY 2020-2021, FY 2021-2022 and FY 2022-2023
(CONTRACT PACKAGE NO. CEIP-1/D1/S27)

MAY 2023

Terms of Reference for

Consultancy Services for Conducting Interal Audit of Coastal Embankment Improvement Project, Phase-1 (CEIP-1), for the FY 2019-2020, FY 2020-2021, FY 2021-2022 and FY 2022-2023

(Contract Package No. CEIP-1/D1/S27)

1. BACKGROUND

Bangladesh is a low lying country. Most of the land in the coastal zone is within 1 to 1.5 meter PWD and gets inundated with saline water during tides. In 1960s, polderization (i.e., land surrounded by embankment) had been started to make these land a permanent agricultural land. The coastal embankment system of Bangladesh was originally designed to protect against the tides and the associated salinity intrusion, without much attention to storm surges. Recent cyclonic storm surges brought substantial damage to the embankments and further threatened the integrity of the coastal polders. The above reasons have led the Government to re-focus its strategy on the coastal area from one that only protects against high tides to one that provide protection against frequent storm surges. The long term objective of the Government is to increase the resilience of the entire coastal population to tidal flooding and natural disasters by upgrading the whole embankment system. With an existing network of embankment of nearly 5,700 km long with 139 polders, the magnitude of such a project is daunting and requires prudent planning. Hence a multi-phased approach of embankment improvement and rehabilitation will be adopted over a period of 15 to 20 years. The **Coastal Embankment Improvement Project – Phase 1 (CEIP-1)** is the first phase of this long term program.

The overall **objective** of the CEIP-1 is to increase the resilience of coastal population to natural disasters and climate change. More specifically, the project aims at (a) reducing the loss of assets, crops and livestock during natural disasters; (b) reducing the time of recovery after natural disaster such as cyclone; (c) improving agricultural production by reducing saline water intrusion which is expected to worsen due climate change; and (d) improving the Government of Bangladesh's capacity to respond promptly and effectively to an eligible crisis or emergency. This objective will be achieved by **rehabilitating and improving the polder system in the coastal area**. The Project is expected to be implemented over 7 years (FY13-14-FY 19-20).

The Government of Bangladesh (GOB) has received a Credit from the International Development Association (IDA) to the tune of US$ 400 million (US$ 375 million as Credit and US$ 25 million PPCR Grant) to meet the cost of the CEIP-1. The Project is being implemented by the Ministry of Water Resources (MoWR), through the Bangladesh Water Development Board (BWDB). BWDB has set up a Project Management Unit (PMU) to oversee the development and execution of the project. The PMU is led by a Project Director and located in BWDB's headquarters in Dhaka. The PMU is being assisted by a Construction Supervision Consultants and a Monitoring & Evaluation (M&E) Consultants. Besides, Individual Consultants have been engaged to assist the PMU, CEIP-1 in the discipline of Financial, Procurement, Environment, Land Acquisition & Resettlements and Foresrty.

1.1 Key Results

Progress towards increasing the resilience of the coastal population to climate-related hazards by improving and rehabilitating the embankment structures of the polders will be demonstrated by the following key indicators:

- Gross areas protected by heightened and strengthened embankments in project intervention area (measured in ha);
- Reducing the recovery time after a disaster;
- Increased cropping intensity inside the polder area (measured by o% increase in crop intensity); and
- Quick availability of funds to execute emergency response operations (only to be triggered in the case of a major emergency).

1.2 Project Components

The Project has five components: four components are related to polder improvement and a fifth component (with a provisional zero amount) has been included to allow for rapid reallocation of loan proceeds during an emergency, under streamlined procurement and disbursement procedures. The Project Components are outlined below:

A. Rehabilitation and Improvement of Polders;

B. Implementation of Social Action and Environment Management Plans;

C. Construction Supervision, Monitoring & Evaluation of Project Impact, Supervision of Social and Environment Plans, and Delta Monitoring;

D. Project Management, Technical Assistance, Training and Strategic Studies; and

E. Contingent Emergency Response

1.3 Implementation Arrangement

The Government of Bangladesh (GoB) has overall responsibility for project management and coordination through its Ministry of Water Resources. A Project Steering Committee provides the forum for overall guidance, policy advice and coordination of the project activities and addressing the inter-agency issues. The proposed project is being implemented by BWDB, which acts as the Project Implementing Agency. BWDB is responsible for the implementation of the Project through a PMU.

1.4 Project Steering Committee (PSC)

The PSC is chaired by the Secretary of Water Resources and includes the Secretaries of Finance, Agriculture, Environment, Public Health Engineering, Forestry and Wildlife, the Chief Executive officer of selected NGO, and representatives of the local/district administration as its members. The PSC oversees the project; provides policy-level guidance and inter-agency coordination for the project. The Project Director of the PMU acts as the secretary of the PSC.

1.5 Project Management Unit (PMU)

BWDB has set up a PMU to oversee the development and management of the project. The PMU is led by a Project Director (PD) appointed by MoWR. It is located at the headquarters of BWDB in Dhaka. The PD is of the rank of Additional Chief Engineer/Chief Engineer, and reports to the Additional Director General (West Region). The PMU has 3 subordinate Units: (i) Engineering Unit; (ii) Procurement and Finance Unit; and (iii) Environment and Social Unit. In addition to the central unit in Dhaka, 2 Field FOs have been set up at Khulna and Patuakhali. Besides, the Pirojpr, Borguna and Kalapara O&M/WD Divisions of BWDB have been involved is providing necessary supports to the project in respect to monitoring, quality control, land acquisition and other pertinent activities through an Office Memorandum of the Office of the Project Director, CEIP-1, BWDB, Dhaka after obtaining approval from the Director General, BWDB, Dhaka.

PMU is being assisted by Detailed Design & Construction and Supervision (DDCS) & Project Management Support (PMS) Consultants and a Monitoring and Evaluation (M&E) Consultants. 5(five)

NGOs were appointed to implement a) Social Action Plan including setting up WMOs, b) Social Afforestation and c) Integrated Pest Management (IPM) and they have completed the their tasks. The PMU also appointed 2 (two) members of Independent Panel of Experts (IPoE) to oversee and provide guidance on social and environmental safeguards of the project as per requirement of Government of Bangladesh (GoB) and World Bank (WB). However, the services of these 2(two) IPOE had been completed by June, 2020.

2. OBJECTIVE

Objective of the Assignment:

The main objective of Internal Audit is to add value and improve projects operations. It will help the project accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The objective could be achieved by examining, evaluating and reporting on the adequacy of the projects 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.

In view of achieving the objectives, the Project Authority has planned to carry out Internal Audit in 2 (two) Phases. As a part of Phase-1, the Internal Audit for the FY 2016-2017, FY 2017-2018 and FY 2018-2019 has been carried out through a National Audit Firm (Chartered Accountants). The Findings and Recommendations made by the Auditor have been complied with through an Action Plan.

So, as a part of Phase-2, the Poject Authority plans to carry out the Internal Audit for remaining Fianancial Year of the Project; i.e. FY 2019-2020, FY 2020-2021. FY 2021-2022 and FY 2022-2023, through a **National Audit Firm** (Chartered Accountants/Certified Public Accountants) having experience to conduct internal audit in development Project.

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

i) Reliability of the Financial Management system, financial data and report at all tiers of operation;

ii) Examine, if the funds are used efficiently and effectively;

iii) Provide observation to identify improvement opportunities in both cooperating and financial performance;

iv) 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;

v) Issue a report highlighting on the status of internal control environment and provide recommendations for improvement;

vi) Financial Monitoring Report (FMR): completeness, timeliness, occurrence, measurement, recording, regularity including eligibility and propriety; and 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;

vii) 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;

viii) Recommend measures for improving the performance of the project;

Nature of Internal Audit:

The major role of Internal Audit is to provide independent assurance that systems operated by the project's authority are effective and that the control environment is adequate. Internal auditors are to provide independent assurance that risks are mitigated and that the organization's corporate governance is strong and effective. And, when there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures.

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

- Identifying and assessing financial and operational risks in the project operations;
- Evaluating the adequacy and effectiveness of overall internal control system which may include but not limited to:
  - Preventing and detective risks;
  - Risk identification, risk assessment and risk management by the Project;
  - Reliability and comprehensiveness of financial reporting ;
  - 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.

3. SCOPE OF ASSIGNMENT

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 audit should be carried out in accordance with the International Standards of Internal Auditing issued by the Institute of Internal Auditor and should include such tests and controls necessary for performance of the audit. The scope of internal audit should include but not limited to the followings:

a. The audit would should be carried out in accordance with Internal Audit Standards and include such tests and controls, as the auditor considers necessary under the circumstances. The audit firm 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 recommend methods to improve or to create new ones where there are none. This would include aspects such as:
   i) Financial reporting controls: Properly record, Process and summarize transaction to permit preparation of timely and reliable interim unedited Financial Report (IUFR);

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

   iii) 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 assets register (s). The assts and store 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.

b. 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 firm would also cover all cost-based consultancy or other contracts for which no supporting documentation is provided to the implementing agencies by the consulting firm or other agency.
c. Review of the operation of the financial management system including the project Financial statements, internal controls and compliance with financial agreements of all the agencies; and
d. Provide project management with timely information on agencies financial management aspects of the project to enable follow up action.

e. Provide project management with timely information on communities project financial management systems and suggest follow up action

f. Conduct Transactional review of expenditures incurred by PMU on sample basis.

g. Carry out inventory of Physical assets on sample basis

4. SPECIFIC AREAS OF EXAMINATION AND VERIFICATION

- 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 sample of contracts for both prior and post review thresholds (50% from prior review and 25% from post review contracts) in consultation with Project Management Unit (PMU) and IDA.

- 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.

- Verify whether goods, services and works are being used for intended project purposes including technical assistance provide 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.

- 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.

Verify whether application of project incremental operating cost has been complied with the terms of the Loan Agreement.

- Examine the timeliness of activities under project component (on a sample basis) to ensure that the deadlines and milestones set in the project design are met. In this case, compare projection to the actual results and verify whether accurate forecast is made for the project and thereby disbursement targets met.

- Examine the overall disbursement performance of the project and identify the reasons if the disbursement performance is low and recommend measures for the improvement.

- Verify quality assurance procedures to ascertain whether the quality parameters are complied with

- Compare physical progress with financial progress and determine the variance with reason.

- Compare actual progress with yearly targeted as per ADP and Development Project Proforma (DPP)

- Determine Causes of cost over run, its justifications and impact on the project.

- Conduct physical on-site verification of assets and their intended use, services rendered as described in the payment documents or contracts and verify whether any payments made before actual receipts of goods and services and beyond contract clause. Evidence of work may include photographs of the goods and works by the consultants, written acknowledgement from beneficiaries, participants, stake-holders and other third parties, supporting documents from venues for workshops, training center etc. Examine whether the transaction prices or value are unduly inflated; whether liquidated damages have been charged and recovered as per contract, whether payments were made for substandard goods/equipment instead of intended product.

5. APPLICABLE COMPLIANCE

Audit methodology to set out in collaborated compliance with the:

(i) General Financial Rules of Government;
(ii) Budgeting & Planning Process of Government;
(iii) Guidelines for Release & Utilization of Funds for Development Projects; Circulated by Finance Division, Ministry of Finance;
(iv) "Delegation of Financial Powers for Development Projects" issued by Finance Division, Ministry of Finance;
(v) The Project Appraisal Document (PAD);
(vi) Financing Agreement of the Project (FA);
(vii) Development Project Proforma (DPP);
(viii) World Bank Disbursement Guidelines for Projects;
(ix) Public Procurement Act 2006 & Rules 2008.
(x) VAT & Income Tax practice in Bangladesh.

6. AUDIT AREA and TIME FRAME:

a. The audit will be conducted at the PMU office in Dhaka. Sample field audit (at least 20% of project area) will be needed for confirming the field activities.

b. The audit firm shall be appointed to cover the activities for the period of FY 2019-2020; FY 2020-2021, FY 2021-2022 and FY 2022-2023..

7. INTERNAL AUDIT PLANNING

- Audit is to be planned to cover all the components and sub-components of the projects at all the implementation sites including the PMU- (Project Management Unit).

- Deliverables would require to be confirmed in the Inception Report within **15 days** of commencement the contract along with revised and updated plan, methodology, resources and time frame.

- The plan will be a broad outline of the strategy to be adopted by Internal Audit in order to meet audit objectives. Prioritization and identification of the auditable areas with focus to the following factors:
  (i) The outcome of project risk assessments;

  (ii) Materiality;

  (iii) Risk management, performance management and other assurance processes in place;

  (iv) Importance in terms of sensitivity and public accountability;

  (v) Coverage, timing and outcome of previous internal or external audit.

Internal auditor will conduct audit in accordance with the plan with adequate notice to the Financial Unit of PMU for preparation of audit data sheet circulated on relevant information.

On invitation, Internal Audit auditor will attend meetings to report on the progress of planned audit work, request the Project Director on any need. The practicalities of these arrangements will be discussed and agreed.

8. DURATION OF THE SERVICES

The duration of the audit shall be 70 days (from commencement of the services to submission of Final Report). The auditor shall submit the Final Report within 70 days from the date of commencement.

9. QUALIFICATIONS OF THE AUDIT FIRM

Given the nature of this assignment in direct and personal support of PMU, CEIP-1 officials, the firm staff should all have highly developed human relations and communications skills and the firm may include sufficient number of appropriate seniors/junior staff for specific tasks as required basis.

The audit shall be conducted by hiring a consulting firm (internal audit firm) with wide experience in conducting such internal audit and/ or similar functions. The firm should have at least 10 years experience in doing similar job. The firm should have experience of conducting internal audit of the projects (s) funded by development partner such as IDA, ADB, UN organization, JICA etc.

The qualifications and experience of the staffs of the Audit Firm are as indicated in the table below:

Staff Member	Qualification and Experience
Team Leader/ Operations Auditor	Educational Background: Minimum B.Sc (Engineering) / Masters in public or business administration or in another discipline relevant to the assignment, from a recognized university. Professional Experience: Minimum 15 years of progressive professional experience in projects requiring large data base management auditing and complex human-based logistics. Specific qualifications: Minimum of 5 years of management auditing experience on a project of comparable size and complexity as CEIP-1. Having successfully managed Internal Audit from start to end at least one technology-intensive contract worth at least USD 100 million. Extensive familiarity with rehabilitation /upgrading of embankment, construction of hydraulic structure, river bank protection works, Resettlement Action Plan (RAP), Land Acquisition Plan (LAP), Environmental Mangement Plan (EMP).
Financial Management Auditor / Deputy Team Leader	Educational Background: Qualified Chartered Accountant/Certified Public Accountant who has proven knowledge and experience in dealing with donor funded development projects. Professional experience: Minimum 15 years of progressive professional experience Specific qualifications: • Must be a Qualified Chartered Accountant/ Certified Public Accountant. • Up to date knowledge of current financial and accounting computer applications. • Excellent analytical, organizational and communications skills.
Junior Auditor-2 Nos.	Educational Background: Minimum Masters Degree in Finance/ Commerce/ Accounting, having minimum 3 (three) years experiences in auditing GOB/ Donor funded Project. CA/ similar equivalent certified Course completed, is perferable.

The Audit Firm shall provide a detailed schedule of proposed staff and corresponding duration of assignment.

10. DELIVERABLES AND REPORTING

a) Internal Audit Firm will report to the Project Director, CEIP-1, BWDB with copies to the Deputy Director (Accounts.) , PMU, CEIP-1, BWDB.

b) The Reporting will be designed in three **parts**;

(i) Preliminary study of the project operations by the Team Leader of IA firm and submit an *Inception Report* with an audit methodology, time frame, audit resources and their qualification ***within 15 days*** of commencent of the contract.

(ii) Submit ***Draft Report*** within ***50 days*** of commencement of the contract, covering Audit report with an auditors opinion, detailed report on project component wise work undertaken, control environment of the beneficiary institutions as studied by the project, fund received, utilized, reasons for delayed utilization (if any) and deficiencies noted and a **table form report (sample format to agree in the inception report)** with significant issues, findings, financial impacts, recommendations, management response and timeframe of the implementation of the recommendations. IDA representative would attend the draft report discussion meeting.

(iii) Submit ***Final Report*** *as reviewed* within ***70 days*** of commencement of the contract in (a) soft copy in Flash drive (as PDF file with copying provision) and (b) Printed version; all in ten sets.

Each Report shall contain:

- Executive Summary
- Summary of audit findings with recommended actions.
- Detailed assessment of each audit areas which include review of the project progress, assessment of 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.

11.00 Mode of Payment:

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

- 10 % on contract value will be paid after submission of Inception Report.
- 50% contract value will be paid after submission & reviewing and acceptance of Draft Report by the Project and IDA.
- 40% on contract value will be paid after submission & acceptance of Final Report by the Project and IDA.

11. PROCUREMENT METHOD

The Consultant / Internal Audit firm will be procured by Fixed-Budget Selection (FBS) Method following Public Procurement Act-2006 (PPA-2006) and Public Procurement Rules- 2008 (PPR-2008)

12. PROJECT REPRESENTATIVE FOR COMMUNICATION:

The Consultant/Audit firm will work in close cooperation with PMU staff of the project. However, the consultant will be directly responsible and accountable to the 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.

13. GENERAL

The Consultant/Internal Audit Firm would be given access to all documents, correspondence, and any other information relating to the project and deemed necessary by the Internal Auditor. The Consultant/Audit Firm 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). The Internal Auditor would be provided with copies of the Project Appraisal Document (PAD) and Financing Agreement. The Internal Auditor should obtain and maintain satisfactorily document evidence to support their conclusions.

28/05/2023

(Syed Hasan Imam)
Chief Engineer &
Project Director
CEIP-1, BWDB, Dhaka