



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

Terms of Reference (ToR)
for
Engagement of Internal Audit Firm
(Package no: RWSHP-SD-19)

(Lump-sum Contract)

under

Rural Water, Sanitation and Hygiene for Human Capital Development Project (RWSHHCDP)



Department of Public Health Engineering (DPHE)

August, 2023

**Terms of Reference
for
Engagement of Internal Auditing Firm**

The Project at a Glance

Title of the Project	Rural Water, Sanitation and Hygiene for Human Capital Development Project (RWSHHCDP).
Implementing Organization	Department of Public Health Engineering (DPHE).
Funding Sources	IDA (Credit No: 6777-BD) & AIIB (Loan No: L0398A BD).
Package Name	Engagement of Internal Audit Firm.
Contract Package Number	RWSHP-SD-19.
Duration of assignment	Up to Project period (to be ended in December 2025).
Location of assignment	Within PMU Office, Dhaka and 98 Upazilla under 30 Districts (Annex-1)
Contracting Entity	Project Director, Rural Water, Sanitation and Hygiene for Human Capital Development Project (RWSHHCDP).

1. Background:

Bangladesh is one of the world's most populous countries with an estimated 165 million people in a geographical area of about 144,415 sq.km and per capita income of US\$1,670 (WB Atlas method) in 2018, well above the lower middle-income country category threshold which it crossed in FY14. During recent years, economic condition was much improved in the country with higher GDP growth rate. Bangladesh's performance against the Millennium Development Goals (MDG) goals was also impressive relative to the South Asia Region average for most of the indicators. Now, Bangladesh is committed to achieve SDG goal 6.1 and 6.2. Access to WASH services in rural Bangladesh improved much over time, but significant challenges remain for the government to achieve the United Nations' Sustainable Development Goal (SDG) 6 on clean water and sanitation. According to JMP 2017, about 97 percent of the rural population had access at least to 'basic' water supply. 1 This achievement was largely due to the expansion of tube wells in rural areas, with close to 95 percent of rural people using them. 2 Meanwhile, the community led total sanitation (CLTS) approach enabled a vast majority of the rural population to end open defecation and use sanitation facilities. As a result, access to improved' sanitation increased dramatically from 26 percent to 48 percent in rural areas from 2000 to 2017.3 Still, significant challenges remain in rural WASH to meet the SDG 6 service standards, which are recommended for maximizing human capital outcomes. To meet the above challenges. To meet the above challenges, DPHE undertakes a project entitled, Bangladesh Rural Water, Sanitation and Hygiene for Human Capital Development supported by the international Development Association (IDA) – a member of the World Bank Group and Asian infrastructure investment Bank (AIIB). The project will primarily contribute to Social inclusion by targeting assistance to the most vulnerable in the rural area to better access safely-managed WASH services, which would positively impact nutrition, health, and education outcomes. Second, the project will address some of the key constraints to the Growth and Competitiveness by strengthening the market delivery of WASH, mobilizing private capital to finance WASH services, and creating jobs, Third, the project is addressing the Climate and Environment Management through building climate resilient sanitation facilities and improving fecal sludge management, thereby reducing contamination of surface and ground water and mitigating public health impacts. This project will contribute to preventing disease and protecting human health during infectious disease outbreaks, including the current COVID-19 pandemic; by increasing access to quality WASH services at households and in public spaces-including healthcare facilities-and enhancing their proper use, which are key to preventing the spread of germs and viruses. Behavioral change is also the focus of the project which will be implemented both by DPHE and PKSF.

2. Objective(s) of the Assignment:

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

- Reliability of the Financial Management system, financial data and report at all tiers of operation;
- Adequacy and effectiveness of the accounting, financial and operational controls;
- Internal Control Systems: completeness, written instructions, effective implementation and frequency of review and up-dating;

- Level of compliance with the established policies, plans and procedures;
- Interim Unaudited Financial Report (IUFR): completeness, timeliness, occurrence, measurement, recording, regularity including eligibility and propriety; and
- Assets: completeness, existence, recording, safeguard and utilization for the purpose intended.

In addition to the above, the objective of the internal audit engagement is to provide an independent, objective assurance and consulting activity designed to add value and improve the project's operations. It is intended to help the project accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance process. The objective is achieved by examining, evaluating and reporting on the adequacy of the projects control environment via number of individual audit assignments each year. Based on this work, advice and recommendations will be made where necessary, as to how procedures can be improved to manage the risks faced in achieving project objectives.

- Internal audit shall be an independent and objective activity for providing assurance and consulting services designed to add value and improve the activity of the project.
- Internal audit shall assist the project in the achievement of its goal by applying a systematic and disciplined approach to evaluate and improve effectiveness of risk management- procurement and financial aspects, control and management process.
- Internal audit shall be performed in accordance with the International Standards for Internal Auditing, the Code of Ethics of internal auditor and in compliance with the following principles:
 - 1) Independence and objectivity;
 - 2) Competence and due care;
 - 3) Integrity and confidentiality.

3. Nature of Internal Audit:

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

- Identifying and assessing the risks in the project operations;
- Evaluating the adequacy and effectiveness of financial management and control system in relation to –
- Preventive and detective controls;
- Risk identification, risk assessment and risk management by the Project;
- Reliability and comprehensiveness of financial reporting (IUFR), entity financial position for the relevant financial year and operating information;
- 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.

4. Scope of Services, Tasks (Components) and Expected Deliverables:

Scope of Services and Tasks:

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.

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The overall scope of works of the internal audit is but not limited to:

- a. Reviewing the operations of the financial management system including the project Financial statements, internal controls and compliance with financial agreements;
- b. To provide project management with timely information on agencies financial management aspects of the project to enable follow up actions;
- c. To provide project management with timely information on communities project financial management systems and suggest follow up action ;
- d. Transactional review of expenditures incurred by PMU on sample basis ;
- e. Physical verification of work and assets on sample basis.

The audit should be carried out in accordance with the local as well as International Standards as would be applicable for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and should include such tests and controls necessary for performance of the audit. Specific areas of audit should include the following; although not limited to:

- a. Assessing 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;
- b. Ascertaining the extent of level of compliance with established policies, plans and procedures of the GoB, including those agreed under the legal agreement;
- c. Verifying 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;
- d. Verifying Assets: Completeness, existence, recording, safeguard and utilization for the purpose intended including, physical verification of sample of assets;
- e. 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. The clear linkages exist between the accounting records, IUFRs claims and Project Financial statements;
- f. Developing an appropriate system of accounting and financial reporting exists, on the basis of which IUFRs are prepared and submitted for reimbursement;
- g. Verify and develop efficiency and timeliness of funds flow mechanism at the level of PMU;
- h. Ascertaining the reliability of integrity, controls, security and effectiveness of the operation of computerized system; and

The Audit team will deem the adequacy of controls necessary in all areas and will seek to confirm that the PMU has taken necessary steps to achieve these objectives.

That includes:

- reviewing systems and operations and appraising the adequacy of controls;
- recommending improvements to systems and procedures;
- advising on appropriate systems of control and other operational matters;
- appraising the extent of compliance with established policies, procedures and plans;
- assessing the accuracy of management information;
- maintaining a continuous review of the disbursements; and

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- being involved in the design, implementation and testing of planned controls when major changes are made to various administrative systems but shall not be responsible for the detailed implementation of such systems.

5. Team Composition

Team Composition & Qualification Requirements for the Key Experts (and any other requirements which will be used for evaluating the Key Experts).

Sl. No.	Position	Qualification	Expertise
Key Professional			
K-1	Team Leader	Master in Accounting/Finance/ MBA/FCA/CA/CMA/ACCA.	Minimum 10 years of post-qualification experience as practicing Chartered Accountant. Must be experienced in working as Team Leader/ Deputy Team Leader/Project Manager of similar assignment of which minimum 5 years relating to Foreign Aided Project Audit.
K-2	Deputy Team Leader/ Audit Manager	Master in Accounting/Finance/ MBA/CA/CMA/ACCA.	Minimum 5 years of post-qualification experience as practicing Chartered Accountant. Must have minimum 2 years relating to Foreign Aided Project Audit.
K-3	Audit Supervisor	Master in Accounting/ Finance/MBA with CA partly qualified.	Minimum 3 years of experience with IDA/NGOs/other Donors funded project
Non-Key Professional			
NK-1	Senior Auditor	Master in Accounting/ Finance/MBA.	Working experience with any public/private organization.
NK-2	Junior Auditor	Graduate in Accounting/ Finance/MBA.	Working experience with any Public/Private organization.

The proposed Team Composition will be reviewed during evaluation of proposal. The Audit Firm is encouraged to add in their proposal required staffing pool as non-key experts as to accomplish assignment, but they will not be accounted for evaluation.

6. Reporting Requirements and Time Schedule for Deliverables:

- The audit will be conducted at the Project office and field offices. Site visits will be selected based on scientific sampling. The audit will cover the status of previous work performed by the audit team. The audit shall cover the period from July 2021 to December 2025.
- The Consultant shall have to submit the Methodology and Work Plans for Audit in their technical proposal;
- Internal Audit Report shall contain:
 - Inception Report
 - Draft Audit Report; and
 - Final Audit Report
- The Auditor will provide Annual Internal Audit Reports to the project highlighting findings to enable the management to take timely action. The annual report shall bear copy of previous interim report This will be in the form of a Management Letter (including an executive summary highlighting key issue 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 recommendation for their improvement;

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- (g) Compliance with legal agreements and comments, if any, on internal and external matters affecting such compliance;
- (h) Matters that have come to attention during the internal audit that might have a significant impact on the implementation of the project; and
- (i) Any other matter that the internal auditors consider pertinent.
- (j) Time Schedule for Deliverables:

The audit reports are required to be done as follows:

Particular of report		Submission Deadline
Inception Report		Within 15 days of contract.
Audit Report for the financial year of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026.	Draft Audit Report	Within 60 days on inception. (Individual report for each FY).
	Final Audit Report	Within 5 days on incorporating project's comments on draft report.
Audit Report for the financial year of 2025-2026.	Final Annual Internal Audit Report	By December 31, 2025.
Final Report on significant findings resulting from internal audit and investigation assignments undertaken in FY 2021-2025.		By December 31, 2025.

N.B: Duration of the Contract might be extended upon extension of the project period and the satisfactory performance of the firm.

7. Client's Input and Counterpart Personnel :

- a) The Internal Auditor to be engaged as Consultant shall provide services with due diligence and 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).
- b) The Client/Project Authority will provide the Consultant all required information and facilities briefed below:
 - Access to all documents, correspondence, and any other information relating to the project and deemed necessary by the Internal Auditor;
 - Available copies of the Project Financial Manual, Project Operational Manual (POM), Financing Agreement, guidelines, policies and procedures of GoB and Development partner;
 - The engaged Internal Auditor should obtain and maintain satisfactorily document evidence to support their conclusions;
 - Client will provide a temporary working space (as and when required) with internet facilities at Project office to perform the assigned services of Audit Firm ;
 - Transport facilities will not be provided to the Consultant;
 - Computer as well as logistic support will not be provided to the Consultant.

8. Audit of Project IUFRR (Interim Unaudited Financial Report):

The project financial statement is called IUFRR. The IUFRR will reflect the annual funding sources and usages under components as prime segments of the project activities. The auditor would require clear understanding on components and relevant sub-components with detailed review of the project documents.

The payments would encompass the payments against receipts of fund for the goods, works, consultancy & non-consultancy services and training and also the operating costs of the project.

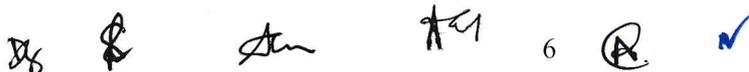
Furthermore, the detailed tasks that are to be carried out are outlined below:



- a. An assessment of the adequacy of in and adherence to the Program financial management systems, including internal controls. This would include aspects such as adequacy and timeliness of accounting, financial and operational controls and the need for any revision; level of compliance with established policies, plans and procedures reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; sample verification of assets and liabilities;
- b. The books of account required to be maintained as per the project financing agreement, Government financial rules and Project Financial Management Manual have been maintained and are up to date;
- c. That all transactions as recorded in the books of accounts are supported by adequate documentation and that monthly accounts are rendered in applicable situations to the Ministry assigned bodies in a timely manner and are reconciled;
- d. Clear linkages exist between different accounting records including account books and the IUFs and the activities are appropriately classified into sub-components in the monthly abstracts and the figures are reconciled with the quarterly accounts rendered to the IDA;
- e. An assessment of compliance with provisions of financial agreements, especially those relating to accounting and financial matters;
- f. That all funds received under the Project has been used in accordance with the financial agreements, with due attention to economy and efficiency and only for the purposes for which the financial was provided;
- g. That expenditures charged to the program are eligible expenditures and have been classified correctly;
- h. That the funds flow process is working effectively, and the time lines as defined in the financial manual are being met;
- i. That the system for monitoring security deposit deducted from contractors is adequate and all statutory deductions have been made from the running bills;
- j. That the funds are utilized for the program in which it was intended for and are not being utilized for activities outside the Program;
- k. That fund is not parked in the bank accounts outside the designated account especially at year end;
- l. Adequacy and adherence of the internal control systems on tranche release and monitoring of funds released to the project and that issues identified in the audit report of the concurrent auditors are adequately dealt with by the project;
- m. That the consolidation process followed at the various levels of the program is adequately followed and an adequate and reliable data base exists for each program;
- n. That the beneficiary contribution is being adequately reflected in the financial statements;
- o. To submit a table on the contract awarded in the audit period and completed and not completed, contract of prior period completed and not completed during audit period with agreed completion date and percentage achieved in both in volume and value.

9. Applicable Auditing Standards:

- a. Audit methodology to set out in collaborated compliance with the:
- b. International Standards for the Professional Practice of Internal Auditing;
- c. GOB and Ministry of Finance regulations and controls exercised on ADP (Budget) allocations;
- d. Bangladesh Standards of Auditing as deemed relevant on project operations;
- e. Memorandum of agreements between Government and development partners and supplementary agreements with the project if any;
- f. The World Bank mandates (Financing Agreement/PAD);


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- g. Compliance to the relevant laws in the implementation of the project;
- h. Compliance to the project financial management manual in practice;
- i. Internal auditors must exercise due professional care
- j. Extent of work needed to achieve the engagement's objectives;
- k. Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- l. Adequacy and effectiveness of governance, risk management, and control processes;
- m. Probability of significant errors, fraud, or noncompliance; and
- n. Cost of assurance in relation to potential benefits.

10. Strategic Audit Plan:

As an aid to managing the audit function and to set priorities, a rolling 5 years' strategic audit plan will be prepared and presented to PIU annually for comment and recommendation for Project Director's approval. In formulating the audit plan and annual work program, the Team Leader, Internal Audit must consult with PIU's cell heads including FMS and the Project Director.

The strategic audit plan must:

- a. be sufficiently comprehensive so as to identify the auditable areas and activities;
- b. take into consideration an assessment of risk associated with auditable areas and activities, the internal control environment, results of previous audit and materiality;
- c. be prepared having regard to achieving an appropriate balance between regularity and efficiency audits;
- d. provide a schedule of audits to be undertaken with the resources available during the period covered by the plan; and
- e. allow flexibility to accommodate special tasks and projects if requested by the Project Director in accordance with any submitted proposal for service.

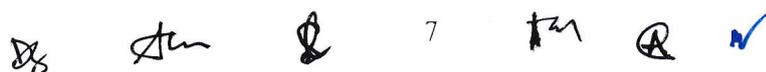
11. Responsibilities of the PMU office:

RWSHHCD Project is committed to ensure the existence and continuing efficiency of arrangements for proper management of the project's resources, including:

- Enabling the project to meet its intended objectives;
- The establishment of procedures and systems for proper and effective management of human and financial resources;
- The establishment of accounting procedures and systems for proper accountability of resources;
- Effective oversight of resources; and
- Timely audit and presentation of annual financial statements.

12. Deliverables, duration and payment schedule of the assignment:

Particular of report/deliverable		Submission Deadline	Payment
Inception Report		Within 15 days on contract agreement.	-
For the financial of FY 2021-2022, 2022-2023.	Draft Audit Report	Within 45 days on inception. (Individual report for each FY)	10% of the contract price.



	Final Audit Report	Within 5 days on incorporating comments on draft report.	
For the financial of 2023-2024	Final Annual Internal Audit Report	By June 30, 2024	30% of the contract price.
For the financial of 2024-2025	Final Annual Internal Audit Report	By June 30, 2025	30% of the contract price.
For the financial of 2025-2026	Final Annual Internal Audit Report	By December, 2025	30% of the contract price.

13. Type of Contract:

Type of Contract will be Lump-Sum basis and local taxes (AIT & VAT) will be deducted from the contract price as per updated applicable law of Bangladesh.

14. Eligibility of the Firm:

The consulting firm should fulfill the following requirements:

- Legal establishment for a minimum of 10 years (proven document) ;
- Experience in similar assignments with proven track record of development project audit specially IDA funded project with at least the project value of 500 crore in Bangladesh ; and
- All audit staff undertake continuing professional activities and at least all proposed Key Experts shall maintain membership of pertinent professional bodies.

Besides the above the following are required for eligibility:

1. Company Registration and Financial statement (last Year);
2. Reputed Registered Chartered Accountant (CA) firm in Bangladesh
3. Audit Reports (Last 5 years);
4. Bank Solvency Certificate;
5. Bank Name, Branch name, account number, account type, closing balance etc;
6. Audited certification has to be attached with the audit report ;
7. Project completion certificates from clients for similar projects; and
8. Resource personnel qualification for the project.

The short-listed Consultant will be provided standard RFP document to submit Technical and Financial proposals.



15. Project representative for communication:

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

Dilruba

24/08/23

(Dilruba Farzana)

Executive Engineer, SIR Division &
Member Secretary, ToR Committee, DPHE.

Dalila
24.08.2023

(Dalila Afroze)

Executive Engineer, Design Division &
Member, ToR Committee, DPHE.

Md Shafikul Alam
24/8/23

(Md Shafikul Alam)

Executive Engineer, Ground Water Division &
Member, ToR Committee, DPHE.

Mohammed Anwar Eusuf
24/08/2023

(Mohammed Anwar Eusuf)

Superintending Engineer, Planning Circle &
Member, ToR Committee, DPHE.

A.H.M. Khalequr Rahman
24.08.23

(A.H.M. Khalequr Rahman)

Executive Engineer, Arsenic Management
Division &
Member, ToR Committee, DPHE.

Mr. Md. Tabibur Rahman Talukder
24/08/2023

(Mr. Md. Tabibur Rahman Talukder)

Project Director
RWSHCDP
Member, ToR Committee, DPHE.

Md. Saifur Rahman
24.08.2023

(Md. Saifur Rahman)

Superintending Engineer, Ground Water Circle &
Convener, ToR Committee, DPHE.

Approved

Md. Sarwar Hossain
24/08/23
(MD. SARWAR HOSSAIN)
Chief Engineer
Department of Public Health Engineering
Govt. of Bangladesh, Dhaka.
MSJ