

Terms of Reference (TOR)

for an assignment requiring the services for strengthening internal audit capacity at Local Government Engineering Department (LGED)

Background

LGED is one of the largest public sector organizations in Bangladesh delegated for planning and implementation of rural infrastructure development projects and programs. LGED has consistently been successful in implementing a big chunk of the development budget of the country. Although LGED has been efficient in the successful implementation of government and development- partner (DP) supported projects/programs, there is significant scope to improve its overall performance, including public financial management part of it.

The internal audit function of LGED was formed in 1995 as an informal set up to conduct compliance audits, performance audit and systems audits. This unit is one of the longest serving internal audit units in the country's public sector. However, the Audit Cell has not been strengthened during last two decades despite considerable increase of workload. Recently, LGED has developed an Internal Audit Manual with the help of a USAID Project. To support the increasing workload of LGED, a revised organogram has been developed which recognizes a separate internal audit unit. The proposed Internal Audit Unit will be headed by at least an officer no less than a rank of Superintending Engineer and will be staffed with a combination of engineers and accountants. The Unit will be driving towards achieving professional Internal Audit Certification from IIA (Institute of Internal Auditors).

The Association will support the GoB's rural bridge-related activities under 'Operatio for Supporting Rural Bridges Program'. The Program is a subset of the LGED's overall program of capital investment for the construction and maintenance of rural bridges. The Program will comprise two elements: GoB's bridge maintenance portion of the 'Rural Roads and Culvert Maintenance Program' and a new government program for the replacement, and new construction of rural bridges. The Program, under the LGED, will encompass the following several primary activities: (a) planning, technical design, quality control, and management of rural bridges; (b) maintenance (major and minor), rehabilitation and capacity expansion (widening) of rural bridges; (c) and (d) new construction and replacement of short- to medium-length new bridges, a proportion of which will be built with climate-resilient features.

Also, the Program will have an institutional development and capacity building component, which will be supported by the IPF instrument. As part of the capacity building component of the program, LGED will hire a consulting firm/ consultants to support its Internal Audit Unit to carry out an assessment of existing condition, provide recommendations, prepare an action plan for development of the department to reach a respectable level of IA CM (Internal Audit Capability Model), follow the actions and hand holding LGED, etc.

Objective of the assignment

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Despite the presence of some internal audit function in LGED, it is not well structured and internal audit activity has not been carried out on a regular basis. Among others, the major problems being absence of adequate human resources, qualification, systems, tools and mindset. As a result, over the years, LGED has been outsourcing the internal audit function to private audit firms to conduct annual internal audit. This practice, though serving some purpose in assessing “risks” and “effectiveness of internal control processes”, is not an ideal solution. Recent assessment shows that the private audit firms also do not have qualified internal audit professionals and therefore the whole purpose is being defeated in cases. Though, as an efficient Department, LGED should have an effective internal audit unit which would conduct the internal audit function on a continuous basis, throughout the year to add value to the systems and processes of LGED in its overall operation. With this objective in view, a DLI has been agreed, under the Supporting Rural Bridges Program, to restructure the Audit Cell separating internal audit in LGED to equip it with proper staffing to conduct the internal audit function of international standard. It is expected that with the completion of the restructuring of the audit Cell, LGED will have a proper establishment of an internal audit unit with mandate and resources. As such, this assignment will be to analyze the existing internal audit system of LGED with a view to providing necessary recommendations and prepare an action plan to develop the IA function in LGED in accordance with IA-CM in the foreseeable future.

Scope of work

With the objective of analyzing the internal audit system of LGED, the consultant/firm will, among other pertinent activities, carry out the following:

1. Optics of Public Sector Internal Audit Capability Model:

- I. Identify existence and application of the fundamentals needed for effective internal auditing in the public sector under the framework of “Public Sector Internal Audit Capability Model (IA-CM)” in LGED;
- II. Use the five-level optics of IA-CM (Initial, Infrastructure, Integrated, Managed and Optimizing) to evaluate and comment on the capability level of LGED in performing internal audit function;
- III. Evaluate the need for and the type of IA activity appropriate for LGED and suggest measures to be taken by the agency to move up the ladder of capability level;
- IV. Gauge the existing internal audit functions of LGED in the light of the six essential elements of a) Services and Role of Internal Auditing, b) People Management c) Professional Practices d) Performance Management and Accountability e) Organizational Relationships and Culture and f) Governance Structures.

2. Policy and Procedures on Internal Control:

Assess the existing policy and procedures, laid down for LGED, to ensure the integrity of financial and accounting information, promote accountability and prevent fraud; determine the level of comprehension of LGED as regards the existing policies and procedures of LGED; comment on the gaps.

3. Internal Audit Guidelines:

Review the existing internal audit manual and other related guidelines including Training Manuals; assess its adequacy and quality; suggest areas to be revised in the light of international best practices, for example, application of COSO risk management framework etc.

4. Availability of Resources:

Assess availability of resources to cover the internal audit function for LGED and adequacy of budget provision to fund the internal audit activity across the cost centers of LGED round the year; advice on the resource (human resources, financial resources etc.) requirement for uninterrupted internal audit services in LGED.

5. Auditors' Skills and Independence and Certification from IIA:

Determine the appropriateness of the existing auditors' skills, competence, experience and qualifications to conduct internal audit; assess adherence to auditors' independence and code of ethics; comment on the provisions and quality of periodic training arrangement for the internal auditors as a part of continued education.

6. Internal Audit Plan:

Determine the adequacy of the internal audit plan as regards comprehensive; comment on the method of assessment of risks associated with auditable areas and activities; and will prepare Audit Action plan, the internal control environment, results of previous audit and materiality; suggest ways for diligent risk assessment.

7. Periodicity of the Internal Audit:

Check the periodicity of internal audit and the coverage of internal audit; examine and comment on the Internal Audit calendar and preparation of Internal Audit reports and management actions on the Internal Audit.

8. Management of Internal Audit Findings:

Determine management's role in addressing internal audit findings; management's participation in the preparation of Action Plans and monitoring and implementation of the Action Plans.

9. Audit Committee:

Determine the effectiveness of the Audit Committee to act upon the Internal Audit recommendations, scrutinize and rationalize the formation of Audit Committee with appropriate staff, frequency of audit committee meetings, actions taken based on meetings minutes and decisions.

10. Reliance by External Auditors:

Assess the robustness of the internal audit, under ISSAI 1610 – Using the Work of Internal Auditors, for the OCAG to rely on the work of the IA unit of LGED in conducting the external audit.

11. Information Technology:

Determine the role of information technology, how it affects internal audit process of LGED and the implication of the IT system (software/ hardware) on internal control (control environment, risk assessment, control activities, information and communication and monitoring).

Action Plan

Based on the assessment to be carried out by the consultant, a robust action plan must be prepared with the objective to bring the internal audit unit to IA-CM level 5 in due course. So, the action plan will include everything that requires LGED IA unit to become an internationally comparable internal audit department. Among others, the action plan may include the following as a minimum:

- Obtain an internationally recognized professional internal audit qualification.
- Building capacity on new audit methodologies.
- Purchase of audit software and hardware.
- Updating the audit manual (Both in Bangla and English)
- Short- and medium-term training including compilation and updating of Training Manual

Execution of actions under the action plan will form main responsibility of the consulting firm except for overseas training expenses.

Hands on support

Based on the action plan, the consultant will be expected to work with LGED audit team to carry out at least 5 pilot internal audit assignment consisting of development and revenue projects/departments/functions.

Methodology

The methodology should include, among others, detail work plan involving extensive consultation with relevant stakeholders to prioritize actions to address the gaps. Stakeholder consultation, in the form of workshops/brain storming sessions, need to be carried out with all the relevant stakeholders.

Qualifications and experience of key Professionals

The consultant/firm shall engage qualified, experienced and competent expert, one senior level and two junior level Audit Specialist to deliver the services. Qualification and experience of the key professionals will be required as per following;

Sl. No.	Position	Qualifications & Experience	Number of position	Person-Months per position	Person-Months
1	Senior Audit Specialist	<u>Educational Qualification:</u> <ul style="list-style-type: none"> - A four years graduation in relevant discipline and a professional certification in the field of internal audit - Extensive knowledge in Public Financial Management, specifically international standard and practices of internal audit <u>Experience & adequacy for the assignment:</u> <ul style="list-style-type: none"> - At least 15 years' of professional experience working in the field of Public Financial Management & Specific internal audit assignments - Extensive experience in establishment of Risk Based Internal Audit Departments, extensive system audit experience - Ability to write clearly in English and to use word processing applications 	1	24	24
2	Junior Audit Specialist	<u>Educational Qualification:</u> <ul style="list-style-type: none"> - A four years graduation degree in relevant discipline and a professional certification in the field of internal audit - Extensive knowledge in Public Financial Management, specifically international standard and practices of internal audit 	2	24	48

Sl. No.	Position	Qualifications & Experience	Number of position	Person-Months per position	Person-Months
		<u>Experience & adequacy for the assignment:</u> <ul style="list-style-type: none"> - At least 10 years' of professional experience working in the field of Public Financial Management & Specific internal audit assignments - Extensive experience in establishment of Risk Based Internal Audit Departments, extensive system audit experience - Ability to write clearly in English and to use processing applications 			

Since it will be an output-based contract, the consultant/firm may propose to engage more experts for the different phases of the assignment, if feels necessary, for the accomplishment of the contract within the stipulated time.

Output and the payment schedule

Deliverable	Payment
Inception Report of the assessment	05%
Draft Final Assessment Report	10%
Final Assessment Report	10%
Preparation of Action Plan based on the Assessment	20%
Execution of actions from the action plan	40%
Completion of pilot audits	10%
Final Report of the assignment	05%

Reporting and Timeline

The firm/consultant hired under the program shall report to the project director, on the progress of the assignment on a regularly basis. It is expected to start the assignment from January 2020. The consultant needs to deliver all outputs within 24 months from the date of its commencement. It is estimated that about 156 man-months, equivalent of the key expert input and other support, will be required to complete the services.

Final assessment report on the existing internal audit system of LGED shall be prepared and submitted by the 1st six month of the assignment. Based on the assessment report, within the next six months, the consultant shall complete the preparation of a realistic Action Plan to make LGED internal audit as an international standard internal audit department. Implementation of actions from the Action Plan and pilot audits should be done by the remaining one year of the contract.

Facilities provided by the Client

The client will provide only office spaces, if available, required to render the consultant services. The consultant/firm will arrange and supply other logistics such as equipment including consumables, vehicles/transport and support staffs etc.