

TERMS OF REFERENCE (ToR)
for Conducting Independent Operational Audit (Internal Audit) of
Empowerment and Livelihood Improvement “Nuton Jibon” Project (IDA Credit No-4757) (SIPP-II)
for the period from July 2015 to December 2015 and Nuton Jibon Livelihood Improvement Project
(NJLIP) (IDA Credit No-5594),
for the period from July 2015 to June 2016
Package Contract No BD-SDF-19446-CS-FBS-S-15-0

1.00 Background

1.01 The Institution

The Social Development Foundation (SDF) has been established by the Government of Bangladesh (GoB), in the year 2000 and was registered under Companies Act, 1994 in July 2001 as an autonomous, non-for-profit company. The organization supports Social Development and contributes to the agenda of poverty alleviation in Bangladesh through financing community based development activities.

1.02 The Projects:

Social Investment Program Project (SIPP) is a type of Community Driven Development (CDD) Project, designed to address inequity and poverty through a broad reform program to accelerate economic growth through the development of peoples’ own capacity to organize and enhance their social and economic opportunities. SIPP approach focuses on community organization direct financing and principles of participation, empowerment and downward accountability. Since 2003, the GoB with support from the World Bank and through the institutional channel of Social Development Foundation (SDF), has been implementing the Social Investment Program Project (SIPP). In the respective fiscal year (2015-16) SDF implemented two projects simultaneously with the financial support of the Government of Bangladesh and World Bank. Out of the two “Empowerment and Livelihood Improvement “Nuton Jibon” Project was implemented in 16 districts, 51 Upazilas, and 3262 villages which was closed on 31December 2015. About 6 million people with 650000 HHs are benefitting from the project and about 5224 community managed subjects have been implemented. Another project named ‘Nuton Jibon Livelihood Improvement Project (NJLIP) has started implementation from August 2015 and it will continue implementation up to June 2021 in 13 districts, 36 Upazilas, and 2500 villages. About 2.5 million people with 500,000 HHs will be benefitting from the project.

2.00 The Objective of the Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve SDF’s operations in managing Nuton Jibon Livelihood Improvement Project (NJLIP). The aim of internal audit is to help SDF to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

The 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;
- Compliance: Complete compliance with Project Agreement, PAD, Financial agreement and other terms and conditions of the agreement
- Internal Control Systems: completeness, written instructions, effective implementation and frequency of review and up-dating;
- To examine financial performance, key ratios and overall profitability that lead to the VCO's sustainable;
- To assess whether SIPP villages are able to utilize all VDF allocations and funds are not sitting idle in the village institution's bank account;
- Level of compliance with the established policies, plans and procedures;
- Financial Monitoring Report (FMR): completeness, timeliness, occurrence, measurement, recording, regularity including eligibility and propriety; and
- Assets: completeness, existence, recording, safeguard and utilization for the purpose intended.

Provide reasonable assurance on the management of a CDD operation that;

- funds flow smoothly, adequately, regularly, and predictably from those providing them (donors, central/local governments, etc.) to communities, NGOs, or local government bodies implementing project activities;
- funds are managed properly and efficiently by the bodies receiving funds, and applied only to their intended purposes;
- sufficient and accurate information on project activities including usage of funds flows smoothly and regularly among communities, local governments, and stakeholders, including project beneficiaries and financiers, without placing too large a burden on any layer;
- accountability is stimulated through a strong flow of information among all concerned levels of government and the public on public investments and on the performance of relevant local governments, NGOs, and communities; and
- the capacity of the community and local institutions to own and manage their activities is strengthened.

2.01 Nature of Internal Audit:

The auditor should follow risk based internal audit approach so that they may provide reasonable assurance that:

1. SDF Management has effectively identified, assessed and responded to risks above and below the risk appetite

2. Risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively
3. Risks, responses and actions are being properly classified and reported.

3.00 Scope of Services

The internal audit shall be carried out as part of a continuous process, reporting every six months, monitoring utilization of SIPP resources and results/impact of the program, during project implementation. Focus should be primarily on management issues and fulfillment of the objectives of internal audit and internal control environment of different audit entities and in the areas listed below. Consultant will be expected to derive both qualitative and quantitative indicators as appropriate against each audit areas. Consultant will provide specific comments on primary data derived from different audit entities and provide recommendations for improvement and sustainability mechanisms

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.

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 audit firms 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 transaction to permit preparation of timely and reliable interim unedited Financial Report (IUFR)
- 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 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.
 - An assessment of 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.

- Ascertaining the extent of level of compliance with established policies, plans and procedures of the GoB, including those agreed under the legal agreement.
- Level of compliance to the relevant laws, regulations and controls exercised on GoB-ADP allocations.
- Verifying that the funds received under the project (including counterpart contribution) 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. Assessing whether SIPP and NJLIP villages are able to utilize all VDF allocations and funds are not sitting idle in the village institution's bank account. Examine financial performance, key ratios and overall profitability of VCOs that lead to the village institutions sustainable;
- Assets: Completeness, existence, recording, safeguard and utilization for the purpose intended including, physical verification of sample of assets.
- 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, IUF Rs/SOE claims and Project Financial statements.
- An appropriate system of accounting and financial reporting exists, on the basis of which SOE claims/IUF Rs are prepared and submitted for reimbursement.
- Efficiency and timeliness of funds flow mechanism at the level of PIU and institutions for implementation of project activities.
- Ascertaining the reliability of integrity, controls, security and effectiveness of the operation of computerized system.

A. Audit of Project IUF R (Interim Unaudited Financial Report):

The project financial statement called IUF R; the IUF R will depict the annual funding sources and usages under components designed in the table below as prime segments of the project activities; 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 works, goods, 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:

- 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 nay 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;

- The books of account required to be maintained as per the project financial rules and Project Financial Management manual have been maintained and are up to date.
- 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.
- Clear linkages exist between different accounting records including account books and the IUFRRs 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.
- An assessment of compliance with provisions of financial agreements and PAD, especially those relating to accounting and financial matters.
- That all funds received under the Program have 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.
- That expenditures charged to the program are eligible expenditures and have been classified correctly.
- That the funds flow process is working effectively and the time lines as defined in the financial manual are being met.
- That the system for monitoring security deposit deducted from contractors is adequate and all statutory deductions have been made from the running bills.
- That the funds are utilized for the program in which it was intended for and are not being utilized for activities outside the Program.
- That fund are not parked in the bank accounts outside the designated account especially at year end.
- 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.
- 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.
- That the beneficiary contribution is being adequately reflected in the financial statements.
- 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.

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.

4.00 Applicable Auditing Standards:

Audit methodology to set out in collaborated compliance with the:

- International Standards for the Professional Practice of Internal Auditing.
- GOB and Ministry of Finance regulations and controls exercised on ADP (Budget) allocations.
- Bangladesh Standards of Auditing as deemed relevant on project operations.
- Memorandum of agreements between Government and World Bank like financial agreement, PAD and supplementary agreements with the project if any.
- World Bank mandates
- Compliance to the relevant laws in the implementation of the project
- Compliance to the project financial management manual in practice.

Internal auditors must exercise due professional care by considering the;

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

5.00 Responsibilities of the Management:

SDF is committed to ensure the existence and continuing efficacy 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.

6.00 Audit Entities and Audit Areas

6.01 At SDF Head Office, Regional Offices, District Offices, Cluster Offices and Community Organizations

- That there is adequate internal control environment system, tools to carry out the operations;
- That there is appropriate established policy and action plan (Governance & Risk Mitigation);
- That there is compliance and effective identification of weaknesses therein;

- That all external funds have been used in accordance with the conditions of Legal Agreements, with due regard to economy, efficiency and effectiveness and only for the purposes for which the financing was provided;
- That counterpart funds have been provided and used only for the purpose for which financing was provided;
- That goods and services financed under the program have been procured in accordance with the term of the agreed procurement rules, contract and those are properly recorded and that inventory and stores are regularly verified;
- That all expenditures and disbursements made are appropriately authorized, vouched and correctly classified;
- That necessary supporting documents, records and accounts (including a fixed assets register for all significant fixed assets procured by the project) have been kept;
- That there is well defined procedures for preparation of financial monitoring reports and that these are sent to world bank and other stakeholders in a timely manner;
- That annual financial statement of SDF have been prepared in accordance with consistently applied International Accounting Standards and give a true and fair view of the financial position of the Program and of its resources and expenditures on the reporting date ; and
- That Downward Accountability Framework is well defined and implemented properly.
- That the funds are utilized for the program in which it was intended for and are not being utilized for activities outside the Program. That fund is not parked in the bank accounts outside the designated account or operational account especially at year end and financial transactions are done as per the financial control mechanism.
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6.02 At Gram Parishads (GP)

- That village development funds are used in full compliance to the applicable rules and regulations;
- That Rules and Guidelines prepared for credit and lending activities are appropriately understood and complied with; and
- That simplified procedures are maintained for the preparation of financial statements and that all members of GP have a clear understanding of the financial involvement.
- In case of under utilization of funds or over allocation of village funds, no funds should be called back unless agreed with the Gram Parishad of the villages and Umbrella Financing amended adhering the project principles accordingly. Funds once called back must be accounted for in the books of accounts reflecting the true financial pictures.

6.03 At Gram Samiti (GS)

- That GS maintains cash and bank book, receipts and payments recorded therein are supported by relevant documents duly approved by the authority, books are balanced

regularly and checked by an authorized person and that statement of expenditure is prepared and submitted to GP;

- That separate bank account is maintained, cheque book, pass book and deposit slips are kept in proper custody, cheque issue register is maintained, all payments above Tk. 5,000/- are made by cheque and that bank reconciliation is prepared regularly;
- That procurement related documents for goods, services and works are executed ensuring that procurements were made as per provision in the program in compliance with the applicable rules and regulation;
- That the allocation for Shabolombi Funds out of the Village Development Funds is duly transferred to the bank account of the Village Credit Organization (VCO) for livelihood Development; and
- That Institutional Development Fund is issued as per authorized project activities, analyzed and accounted for correctly.
- The community infrastructure and social services fund (CISF) is utilized following the project principles and funds accounted for accordingly.
- The nutrition activities of NJLIP is implementing properly by the NGOs
- Assessing whether SIPP villages are able to utilize all VDRRF allocated and funds are not sitting idle in the village institution's bank account. Funds once called back from VCO or channeled to the SDF account must be accounted for in the books of accounts reflecting the true financial pictures ensuring acknowledgement receipts from the SDF.

6.04 At Village Credit Organization (VCO)

- That the allocation for Shabolombi Funds out of the Village Development Funds have duly been received and deposited to the bank account of the Village Credit Organization (VCO) for livelihood Development. The VCO committee utilized the funds only for the intended purpose as per authorized project activities, analyzed and accounted for, reflected in the books of accounts and reported in the periodic financial statements correctly.
- That financial performance, key ratios and overall profitability of VCOs that lead to the village institutions sustainable;
- That appropriate business plan are in place, OTR, CRR, PAR etc. are up to the mark, portfolio yield, aging of financial products, positive cumulative net operating income;
- That earned service charges are adequate to run the activity in a sustainable manner.

7.00 Conduct of the Audit and Reporting

- (a) The audit will be conducted at the Head Office of SDF at Dhaka, 3 Regional Offices 22 District Offices, selected cluster Offices out of 204 Cluster Offices and at Gram Samities and their associated organizations. The audit will cover status of previous work performed by the audit team. The audit shall cover the period from July 2015 to June 2016 and the duration of the audit shall be 90 days (from inception to final report);

- (b) The Consultant shall submit the Methodology and Work Plans for Audit in their proposal;
- (c) Internal Audit Report shall contain:
 - (i) **Inception Report:** The report to be submitted to SDF within 15 days from effective date of the contract.
 - (ii) **Draft Internal Audit Report:** The report shall be submitted to SDF within 70 days from effective date of the contract;
 - (iii) **Final Internal Audit Report:** The final report shall be submitted within 20 days after submission of draft report;
- (d) The physical extent of audit services (GPs and GSs will be covered by audit) would be at least 75 villages of SIPP-II and 100 villages of NJLIP;

Reports and Deliverables;

The audit shall cover and report on the project activities over the period from July 2015 to June 2016. The audit report of the firm shall contain:

- Executive Summary
- Summary of audit findings with recommended actions
- Assurance of the effectiveness of risk mitigation plan of SDF
- Assurance of the effectiveness of community loan management system
- 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

8.00 Team Composition

The key personnel in the audit team (for private audit firm), their minimum qualifications and their anticipated inputs are indicated below:

- (a) The audit team shall be led by a team leader/Audit partner with a minimum of 10 years post-qualification experience as a practicing Chartered Accountant. Preference will be given to those who have proven knowledge and experience in dealing with development projects;

- (b) Day to day management of the audit should be the responsibility of an Audit Manager with at least 5 year post-qualification experience as a practicing Chartered Accountant;
- (c) The audit team shall include experts who have working experience with development operations, as well as procurement expert in order to facilitate contract review process;
- (d) The audit team shall include sufficient number of appropriate staff i.e. audit seniors, junior staff. etc.

9.00 General

The Internal Auditor would be given access to all relevant documents, correspondence, and any other information relating to the project and deemed necessary by the Internal Auditor. The Internal Auditor 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). Auditor should obtain, and maintain satisfactorily document evidence to support their conclusions.

10.0 Method of Procurement

- a. The firm will be hired following the FBS (Fixed Budget Selection) method.
- b. The firm shall be selected in accordance with World Bank Guidelines for selection of Consultants- 2011 (Revised 2014) & PPR-2008