

TERMS OF REFERENCE

For

The External Audit (FYs 2019-20) of Upazila Parishads (Contract Package No. UGDP/SD-09)

Section 1: Background

The Local Government Division (LGD) has been implementing the Upazila Governance and Development Project (UGDP) with financial support from JICA since March 2016. The goal of UGDP is to strengthen local government as one of the priority areas for improving governance: “Effective local government institutions will foster public participation and transparency on the ground, which contributes to deliver better public services and achieving national goals.” For strengthening public administration capacity, the plan indicates the main components of the strategy for promoting devolution to local government: such as enhancing the legal framework, improving transparency and accountability, building the capacity, developing planning and budgeting capacity of Local Government Institutions (LGIs), expanding the role and participation of citizens, and establishing e-governance.

Upazila, which is an important LGI with an appropriate size for planning and development interventions, has also been established steadily in recent years. Elections of Upazila Parishad were properly organized in 2009 and 2014; the Upazila Parishad Act was promulgated in 2009 and revised in 2011; the Annual Development Program (ADP) for Upazila was introduced and enhanced gradually.

However, the roles of Upazila Parishad remain small due to the concentration of resources and service delivery through line agencies accountable to Government rather than locally elected councils. Compared with the other categories of LGIs (Union, Pourashava and City Corporation), moreover, decentralization and governance improvement process at the Upazila level still has many challenges. As Upazilas are expected to play a coordinating role and contribute to local development, it is needed for Upazila Parishad to strengthen the capacity to provide effective service delivery for citizens.

Considering the situation mentioned above, it is necessary to initiate a comprehensive and integrated project to strengthen local governance of Bangladesh focusing particularly on Upazila Parishad as a pivotal institution to realize decentralized and effective service delivery to local communities throughout the country.

In order to carry out this annual financial audit, LGD proposes to procure the services of Chartered Accountants (CAs – hereafter referred to as “auditors”). Auditors will be expected to carry out audits of the annual financial statements (AFSS) for FY 2019-20 of Upazilas under UGDP Implementation. Audit reports will be reviewed by LGD.

These Terms of Reference detail the scope and nature of the audit examination of proper use of UGDP funds in 300 Upazilas under 64 districts in the country, over a period of two years (FY 2019-20).

Section 2: Objectives

The objectives of the financial audit:

Financial audit:

“To examine and evaluated



- (i) The financial management in relation to UGDP sub-project implementation is conducted in conformity with the approved budgets, laws and regulations and
- (ii) Upazila Governance and Development Project sub-projects are implemented according to plans.”

Section 3: Scope of the Engagement

Financial audit:

The audit of the financial statements of Upazilas in relation to UGDP implementation will be performed in accordance with the Bangladesh Standards of Auditing that are compatible with the International Standards on Auditing (ISA).

The audit of the annual financial statements of the financial years under audit (FY 2019-20) will be undertaken for 300 Upazilas which received funds from their CD-sub-projects and Infra Sub-projects during (FY 2019-20). The scope of the annual financial audit will include:

- (i) Verification of bank account (bank statement of Agrani Bank) and books of account of UGD Project.
- (ii) Verification of transfer documents for CD sub-projects.
- (iii) Verification of tender documents and physical investigation for Infra sub-projects (all complete and ongoing sub-projects, which is approved by PMU during FY 2019-20).
- (iv) Examination of the books of accounts, vouchers, all the registers relevant to cash transaction and assets and assets register. If any assets purchased by UGDP fund.
- (v) Verification of receipts and expenditures of the Upazila, from resources received under UGDP end of 30th June 2020).
- (vi) Report on any instance of fraud or misappropriation of funds that the auditor comes across during the audit process.
- (vii) Evaluation of accounting procedures, internal controls and capacity of staff in carrying out financial management tasks including identifying weaknesses of such systems and suggesting remedial measures.
- (viii) Preparation of Audit Report by consulting field audit reports.

Entry Meetings:

Upazila Chairmen and UNOs shall arrange entry meeting at the inception of field audit with the audit teams. Sometime DDLGs may facilitate smooth functioning of the audit. In the entry meeting, discussion will be held on Audit Plan, methodologies on auditing of Financial Audit will also be done in the entry meeting.

Exit Meetings:

UNOs shall arrange exit meeting at the end of field audit with the audit teams. UNOs will ensure that exit meetings are organized efficiently with presence of Upazial Chairmen. In the exit meeting, discussion will be held on findings of field audit. Audit Firms are to incorporate responses and observations raised in the meeting in the field audit reports. The proceedings of the meeting will be recorded properly in the minutes and duly signed by UNOs and Upazila Chairs and Auditors. The UNOs will provide a copy of the minutes of an exit meeting to the Audit Firm.



Section 4: Indicative Timeframes and Staff Inputs

Overall process

The overall financial audit will consist of: (i) initial planning and orientation/training to audit and other staff; (ii) actual field work in the Upazila Parishad; (iii) review and report preparation and discussions of the report/ findings in the exit meeting in presence of the UNO and Upazila Chairs and (iv) preparation of consolidated Audit Report.

It is estimated that the field-work at the Upazila level will be conducted by a team consisting of three (two auditors and one audit manager) Articled students/ CA Course completed students / Partly qualified CA students/ staffs spending at least three man-days in each of the Upazilas in order to carry out the financial audit. This field-work will also include some hours working at the Upazila level at the UNO, Upazila Engineer, (LGED) and Project Implementation Bodies/UDF. Audit Manager will visit each of the teams at the inception stage of the audits to give them proper guidance, and again during the final stages to ensure audit quality. During field audit, the audit team will be assisted by the Accounts & Audit Standing Committee of the Upazila.

Team Leader / Deputy Team Leaders shall visit at least one Upazila Parishad to get firsthand knowledge. Senior staff members including Audit Managers will be involved in reviewing audit findings and in drafting audit reports. Partners, senior articled students will also be expected to provide input into the reviewing and report process.

Indicative timeframe

The assignment is expected to commence in or around April 2021. An indicative activity timeframe, in calendar days, of the audit process for Accounting Year 2019-20 is given below:

SI	Activity	Responsibility	Activity days	Cumulative days
1.	Inception Report The Audit Firm is required to submit inception report which auditing respective Upazilas within 10 days of contract signing.	Audit Firm	10	10
2.	Orientation/Training of auditors	PD,UGDP/ ICAB	2	9
3.	Entry Meeting Field work Exit Meeting	Auditor /UNO/Upzs/ UDF	80	89
4.	Preparation and submission of draft Audit Report to PMU.	Audit Firm	20	109
5.	Meeting with PMU after submission of draft audit report	PMU/Audit Firm	1	110
6.	Preparation of Audit Report (Final).	Audit Firm	10	120

Any lapses in regards of quality of works by the Service Provider shall cause further remedial works at the cost of the Service Provider. Submission of reports in an orderly and timely manner will be taken into consideration for the continuation of assignments under contract.



Section 5: Professional Staffing Inputs to be provided by the Audit Firm (Indicative Audit)

Audit teams shall have to be formed taking into account the number of Upazilas. The team should include a rational composition/skills mix to carry out the task. Competence level of the auditor-1, auditor-2 & audit manager will be tested at the end of training / orientation arranged by UGDP only successful articulated students/ course completed students shall be employed to perform all these assignments under the contract. Concerned audit team will meet UNO for entry meeting at the Upazila level before starting the field audit. An indicative team constitution for conducting audit of 300 Upazilas of 64 districts is given as follows with requisite qualifications and experience:

Team position	Number of persons	Minimum qualifications	Tasks (with Working Hour)
1. Team Leader	01	FCA having an up-to-date practicing license from ICAB and a minimum of 10 years of post-qualification practical auditing experience.	Team Leader / Deputy Team Leaders shall visit at least one Upazila Parishad in an Upazila. They will be involved in reviewing audit findings and in drafting audit reports.
2. Deputy Team Leader	01	FCA/ ACA and a minimum of 5 years of post-qualification practical auditing experience.	
3. Audit Manager	8	Course complete with 2.0 years relevant experience.	Monitoring field audit and preparation of draft report. Also ensure preparation of minutes of exit meeting. (At least 01 working day in full in Upazila)
4. Auditor 1	16	Articled Student registered with ICAB having at least 2.0 years of Article ship with relevant experience, presently working with the firm.	Financial audit + Scheme visit + if any. (At least 2 working days in full.)
5. Auditor 2	16	Articled Student registered with ICAB having at least 1.0 year of Article ship, presently working with the firm.	Financial audit + Scheme visit if any. (At least 2 working days in full.)

In all cases, the firms have to submit a list of the manpower mentioned above certified by the Secretary-ICAB as per Annex 4 along with payroll, if already employed. However, the audit firm may propose additional staff, if necessary for better completion of the task.

Section 6: Institutional and Operational Arrangements

An appropriate set of institutional and operational arrangements needs to be in place for the efficient and effective delivery of outputs. Aspects of this are as follows:

Profile of CA firm:

- (i) Registered and in good standing with the Institute of Chartered Accountants of Bangladesh (ICAB), and in public practice in Bangladesh for more than five years.
- (ii) Having experience in auditing of decentralized public sector bodies, and of the public sector financial management environment is desirable.
- (iii) Having experience of working in a rural environment and with the rules and regulations for Upazilas, or past audit experience of Local Government Institutions, is desirable.



Consortiums:

Contract with a single audit firm is preferable. However, authority may allow firms to form consortium. In the case audit firms form consortiums; UGDP will communicate only with the lead firm for successful completion of the assigned task. The responsibility of the lead firm and other members of the consortium will need to be clearly spelt out in the Technical Proposal. To ensure quality, the lead firm will countersign the reports prepared by other members of the consortium. The lead firm will also have to take the responsibility of issuing the summary report of all the Upazila audits. However for any wrong doings, both the lead firm and other member of the consortium, if any, shall be separately and jointly liable.

Audit process:

- (i) After selection, the auditors will be provided with orientation training by UGDP.
- (ii) Once Audit Firm is selected, UGDP will send letters to the Upazilas to be audited and to respective copy to UNOs, informing them of the names of the firms which will be conducting the audits and the possible timing of their field work. Audit firms will provide a list of staffs along with their mobile phone numbers and a copy of photograph for onward transmission to UNOs through mails for better identification.
- (iii) The auditor will be provided by UGDP with a list of Upazilas to be audited, and the auditor will be responsible for contacting the Upazilas to make arrangements for the audits to occur.
- (iv) The auditors shall physically visit every Upazila for conducting the audit. The auditors should carry a letter and a photo ID card provided by the audit firm which PMU should authenticate.
- (v) The auditors should provide at least 2 weeks' notice of the date of their intended visit, and request Upazila Chairmen to be available for those days.
- (vi) The Audit Firm is required to send a calendar of Upazila Audit timeline to PD containing the exact dates of auditing respective Upazilas within 10 days of contract signing.
- (vii) The auditor should inform the relevant UNO of their schedule of visits to the Upazila, together with a request for any assistance that may be required. This communication should be copied to the UGDP.

Section 7: Facilities and Local Services to be provided by the Client

UGDP would provide audit firms with necessary data and documents to facilitate the audit of Upazilas, if required.

Section 8: Deliverables and Schedules

The audit firm will make *Financial Audit Report*.

A. Audit Report

The audit report will be submitted within ninety calendar days from the date of appointment under the contract period.

Audit report should include findings related to the use of UDGP. In addition, any other significant matter that the auditor finds appropriate to be included in the audit report. Findings in the report must be specific and quantified wherever qualified unless impracticable.

The auditors will draft a Management Letter addressed to the Upazila Chairman being audited. The Management Letter should include comments, observations and recommendations on the




weaknesses in the Upazila's financial and administrative systems and internal controls as well as on all other matters relating to implementation of schemes to which the Upazila's attention needs to be drawn to, including the written comments received from the Upazila and discussion of audit observations with the Upazila.

Audit Report (consolidated version) should be submitted to PMU and field audit report also submitted to PMU and targeted Upazilas. In addition, the soft copies of the audit report to the UNO may be submitted through electronic devices and electronic mail.

Summary Report: In addition to the individual audit reports submitted by the auditor for each of the Upazilas audited, a summary report of audits of all Upazilas undertaken under UGDP must be prepared and two copies be submitted, one each along with a soft copy to Project Director, UGDP within fifteen calendar days of clearance from Audit review Firm. The Summary Report shall be prepared in Bangla and English and can be submitted through regular mail and/or electronic mail, where feasible. The summary report will include a schedule of audits undertaken for the year and a list of significant audit findings that are common to the majority of the Upazilas audited by the auditor during the year.

Follow-up of Previous Audit Observations:

The Audit firms will review on the audit trail of *Financial Audit* of the previous years and report accordingly (if any).

Packing, Marking and Distribution of Reports:

The Final Reports *Financial Audit and Management Report* have to be packed and distributed as follows:

- (a) **Packets for Upazilas:** The above first 2 (two) reports of corresponding Upazila have to be packed together in a smaller packet for dispatch to respective Upazilas.
- (b) **For UGDP/PMU:** *Financial Audit and Management Reports* of corresponding Upazilas have to be packed together along with appropriate packing lists, Contract Packages and dispatched as such to the PMU, UGDP.

Section 9: Payment Modality by the Client

Billings and payments in respect of the Services shall be made as follow:

- (i) 10% payments will be made after submission of inception report.
- (ii) 40% payments will be made after submission of draft report.
- (iii) 50% payments will be made after submission of final report with acceptance by the client.

Contract amount will be including Tax & VAT and Tax & VAT will be deducted from source as per NBR rules.

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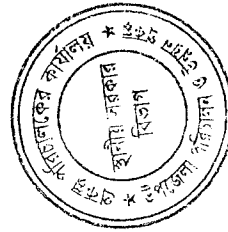


Deliverables and Reporting Requirement:

Sl. No.	Deliverables / Reports	Scope of Reports	Delivery Time	Report to be submitted to	No. of Copies / Format of Report	Remarks
1	2	3	4	5	6	7
1	Inception Report	Includes, <i>inter alia</i> , timeline with exact dates in 'Upazila Audit Calendar' for Upazila Financial Audit.	Within 7 calendar days of signing of contract	PD, UGDP	2 Hard copies, one to each with soft version.	
2	Report on Entry & Exit Meetings	A compiled Report on Entry & Exit Meetings supported by meeting minutes, attendance and audit findings.	Within 7 calendar days of completion of field activity.	PD, UGDP	2 Hard copies, one to each	
3	Draft Reports	Financial Audit (FA) Reports with Management Letter Financial Database, Summary FA Report Upazila's spot explanation on Audit Observation.	Within 10 calendar days of completion of field activity.	PD, UGDP	Each recipient will get all the deliverables, in hard copies and soft version	
4	Final Reports	Financial Audit (FA) Reports with Management Letter Financial Database, Summary FA Report	Within 19 calendar days of completion of field activity.	PD, UGDP Upazila Chairman (Audited Upazila) UNO (Audited Upazila)	6 Hard copies, one to each with soft version.	Packing & distribution as per instructions in Section 8. Soft versions through e-mail.
5	Draft Report on completion of assignment*		-do-	PD, UGDP	One copy each, with soft	
6	Final Report on overall audit assignment**		7 days from receipt of Reviewer's comments on Draft Report	PD, UGDP	One copy each, with soft	

• Prepare and submit Draft Report on overall audit process including findings on the basis of the firm's auditing and other stakeholders. The firm should recommend for remedial measure on the audit findings of Upazilas highlighting unresolved issues.

** Finalize the draft Report incorporating response from PMU, UGDP and relevant stakeholders and submit Final Report.



Annexes**Reporting formats**

1. Format for Audit Report – English version (Source: BSA 800, Appendix 1 - Report on Financial Statements prepared in accordance with a comprehensive basis of accounting other than Bangladesh Accounting Standards- Annex-1)
2. Format for Management Letter – English version (Source: ICAB Guidance for Members in Practice, Part I, Appendix 18 , Annex-2)
3. Format for Summary Audit Report – English version (Annex-3)
4. List of Auditors (Annex-4)
5. List of Proposed Audit Manager (Annex-5)

Methodologies

1. Upazila Parishad Operation Manual



Independent Auditor's Report

The Chairman

..... Upazila Parishad (LGD ID #.....)

Upazila

District

We have audited the accompanying statement of cash receipts and disbursements of Upazila Parishad for the year ended 30 June ----. This statement is the responsibility of management of UGDP. Our responsibility is to express an opinion on the accompanying statement based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As per Upazila Parishad Act 2009 Upazial Parishads are required to prepare annual financial statement on the cash receipts and disbursement. On this basis receipts are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred. In our opinion, the accompanying statement of cash receipts and disbursements presents fairly, in all material respects, the cash receipts and disbursements of the Upazila Parishad for the year ended 30 June ----- in accordance with the Upazila Parishad Act 2009.

SA

Date

AUDITOR

Address

[Signature]



Letter to Management

Date:

The Chairman

..... Upazila Parishad (LGD ID# ...)

Upazila

District

Letter to Management on audit of accounts of UGDP for the year ended

Dear Sir,

We have audited the Cash Receipts and Disbursements Statement of UGDP for the year ended and have submitted the audited statement separately dated

The management of Upazila Parishad is responsible for the maintenance of proper accounting records and for the preparation of the accounts. They are also responsible for establishing and maintaining an appropriate system of internal control which includes adequate accounting records and procedures to safeguard the Parishad's assets and for the prevention and detection of irregularities and fraud.

Our audit involved the review of only those controls and systems in your Parishad upon which we wished to rely for the purpose of determining our audit procedures. Accordingly, our audit may not have identified, and our report should not be relied upon to have disclosed, all the control weaknesses that may have existed. Furthermore, our report should not be relied upon to have disclosed defalcations or other similar irregularities, although their disclosure, if they exist, may well result from the audit tests we undertake.

Our audit included, on a test basis, an examination of accounting procedures and records as were considered appropriate under the circumstances. On the basis of our audit observations and findings, we would like to bring certain matters to your kind attention that we observed during the course of our audit.

Our observations, along with recommendation and management response have been set out on the following pages.

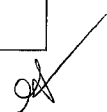
If you have any query on our management letter, please feel free to contact us.

SECTION 1: DETAILS OF FIELD WORK

1.1 Our following representatives were in your Upazila Parishad area for the audit:

NAME AND DESIGNATION OF REPRESENTATIVE	Date : From - To
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1.2 Audit sample size

Particulars	Number of vouchers/ projects	Number checked/ visited	Checking/ visit percentage
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SECTION 2: DETAILS OF OBSERVATIONS

TOPIC: [Area to which the observation relates: (1) **For Financial Audit:** Part A-Financial / Part B-Internal control system/ Part C-Procedural; (2) **For Financial and Assurance Audit:** Part D- Social Accountability / Part E: Reporting in General / Part F-Procurement]

OBSERVATIONS/ FINDINGS number

Report the irregularity or non-compliance or weakness that was noted.

- (a) **IMPLICATIONS:** Mention the implication/ significance of the weakness/ irregularities mentioned in "Observation" Para.
- (b) **RECOMMENDATION:** Note the suggestions for improvement in the system/ remedial measures/ possible ways to solve the issue.
- (c) **MANAGEMENT RESPONSE:** Response of the Chairman on this observation, obtained during field work, is to be included here.
- (d) **AUDITORS' COMMENTS:** If the auditor does not agree with the management comment, the auditor may put his rebuttal here.

SECTION 3: FOLLOW UP AZILA OF THE RECOMMENDATIONS MADE IN THE LAST YEAR'S MANAGEMENT LETTER

Brief description of observation	Last year's Management Response	Result of our review
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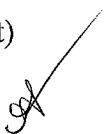
SECTION 4: CONCLUSION

In conclusion we would like to thank the management and staff ofUpazila Parishad for the cooperation and support extended to us during the audit.

Thank you.

Yours faithfully,

(Name of auditor signing the report)
ICAB Enrolment number.....





Summary report format of audits

Date:

To

Project Director, UGDP

Subject: Synthesis report of Upazila Parishad eligibility audits for the year ended(....)

Dear Sirs,

We have completed the audit of Upazilas for the year endedunder Package # ... awarded to us vide UGDP letter number Dated The list of Upazilas are given in Annex-A with date of visit *along with the name of the audit firms¹.

We have submitted the audit report and the audited financial statements of each of the Upazila Parishads for UGDP implementation included in the above Package as well as the Letter to Management incorporating the response of the Upazila management on our findings and recommendations.

As required by the TOR, please find attached the summary report for the above package under the following seven sections:

1. Summary of audit opinion
2. Summary of reasons for adverse opinion (Specifying Upazilas, etc. as above),
3. Summary of reasons for disclaimer of opinion (Specifying Upazilas, etc. as above)
4. Summary of qualified opinions (Specifying Upazilas, etc. as above)
5. Summary of reasons for Unqualified opinion, with emphasis of matter(Specifying Upazilas, etc. as above)
6. Summary of significant issues in 'Letter to management' (Specifying Upazilas, etc. as above)
7. Entry level audit synthesis

Please feel free to contact us for any query or clarifications.

Thank you.

Yours faithfully,

*On behalf of the audit firms in the consortium

(Name of auditor signing the report)

ICAB Enrolment number.....

¹ *applicable in the case of consortium audits only



Summary report of Upazila Parishad audits under Package #....

for the year ended

1. Summary of audit opinion.

	Number of Upazilas
A Unqualified opinion	
B Unqualified opinion, with emphasis of matter	
C Qualified opinion	
D Disclaimer of opinion	
E Adverse opinion	
Total	

2. Summary of reasons for adverse opinion

Reasons	Total number of Upazilas	Name of Upazilas with ID#

3. Summary of reasons for disclaimer of opinion

Reasons	Total number of Upazilas	Name of Upazilas with ID#

4. Summary of reasons for qualified opinions

Reasons	Total number of Upazilas	Name of Upazilas with ID#

5. Summary of reasons for Unqualified opinion, with emphasis of matter

Reasons	Total number of Upazilas	Name of Upazilas with ID#

6. Summary of significant issues in 'Letter to management'

Observation, recommendation and management response	Total number of Upazilas	Name of Upazilas with ID#





7. Entry Level Audit Synthesis

FY (audit period): _____

Auditor: _____ (in case of consortium audit, name of concerned audit firm is to be given in the following table)

District	Upazila	Upazila ID (LGD code)	Date of audit completion	Consortium auditor name	Audit opinion (tick ✓)			
					Unqualified	Qualified	Adverse	Disclaimer

Note: 'Unqualified audit opinion, with emphasis of matter' is expected to be an exception and is to be included in the above table under 'Unqualified'.

For LGD data entry use only

Date of receipt: _____

Checked by: _____ Complete? Yes No





Annex-4**Firm's Name:****Address of the Firm:****List of CA Course Completed / Articled Students**

Sl. No.	Name of CA Course Completed / Articled Students	Name of Principal	Reg. No./Year	Duration since registration
1	2	3	4	5

The above list of CA Course Completed / Articles Students is correct.Signature: _____
(Managing Partner)Signature: _____
(Secretary, ICAB)

Annex-5

Firm's Name:

Address of the Firm:

List of Proposed Audit Managers

Sl. No.	Name of Audit Managers	Date of Birth	Academic Qualification	Experience	Remarks
1	2	3	4	5	6

Signature: _____

