

Government of the People's Republic of Bangladesh
Finance Division, Ministry of Finance
Skills for Employment Investment Program (SEIP)-Tranche-2

SD-27: External Audit Services
Terms of Reference (ToR)

A. Background.

1. The Government of Bangladesh recognizes the low educational and skill levels of the labor force as a major binding constraint to achieving higher economic growth. To have a major dent on the economy, Bangladesh needs to invest heavily in human development, particularly in schooling and skills development. Currently, only 500,000 people receive skills training annually against the actual industry need of at least 2 million. Industry leaders want to participate actively in skilling and up-skilling the work force in priority sectors to exploit the full potential of growth opportunities. The government intends to establish a National Human Resource Development Fund (NHRDF) by 2016 to pool resources from the government, private sector and development partners.

2. The investment program will support the Government of Bangladesh's reforms in skills development anchored in the National Skill Development Policy (NSDP), 2011. It will support large-scale private sector involvement and public-private partnership, which is critical to meet existing and future labor market needs and in reducing skills-gap. This in turn is crucial for Bangladesh to move away from the current "low-skill, low-wage equilibrium" to a "higher skill, higher wage virtuous cycle" to transition to a middle-income country. The program will help the government to scale-up skilling of new entrants and up-skilling of existing workers that will contribute to higher growth of priority sectors. The SEIP will strengthen the skills ecosystem in Bangladesh and support transition to a sector-wide approach (SWAp) by establishing a unified funding system and enhancing overall coordination of the currently fragmented system.

3. The impact will be increased income and productivity of the working population aged 15 years and over. The outcome will be increased employment in priority sectors and skills for males and females. There are four outputs that include: (i) market responsive inclusive skills training delivered; (ii) quality assurance system strengthened; (iii) institutions strengthened; and (iv) effective program management.

4. The Skills for Employment Investment Program (SEIP) that the Government of Bangladesh (GoB) and Asian Development Bank (ADB) are jointly financing will be a major public expenditure. GoB and ADB funding will be channeled from the Consolidated Fund through the GoB system for budgetary allocations and accountability in two parts:

- a) Some SEIP funding (about 20%) will be provided to GoB institutions, 32 public training providers which work under the Directorate of Technical Education (DTE), Bureau of Manpower Employment and Training (BMET) and Bangladesh Industrial Technical Assistance Center (BITAC); and,
- b) Another part of SEIP funding (about 80%) will be provided – via the Ministry of Finance's (MoF's) Finance Division and using GoB budget authorization and advance liquidation procedures – to several non-GoB IAs (Industry Associations).

B. Objectives of the SEIP Program.

5. The overall objective of the project is to qualitatively and quantitatively expand the skilling capacity of identified public and private training providers by establishing and operationalizing a responsive skills ecosystem and delivery mechanism through a combination of well-defined set of funding triggers and targeted capacity support. Specifically, the objectives are to:

- i) Improve program for skilling new entrants and up-skilling existing workforce to enhance productivity and growth of priority industry sectors;
- ii) Impart skills training linked to gainful employment or self-employment through PKSf partners and their livelihood programs as well as through Bangladesh Bank Small and Medium Enterprise (SME) Department linked to jobs in SMEs;
- iii) Develop a network of training providers that are endorsed by industry for providing excellence of training to meet the skills needs of employers;
- iv) Establish and implement a strategy to address the special needs of groups specified in the NSDP and ensure their participation in SEIP programs;

- v) Implement a vocational trainer development program for trainers and assessors and a management leadership program for training provider management reflecting NSDP requirements;
- vi) Strengthen capacity of BTEB in approving training providers registration process, course accreditation and monitoring quality assurance and implementation procedures of training providers;
- vii) Support the training providers for capacity development to ensure quality training delivery mechanism;
- viii) Establish and institutionalize a credible recognition of prior learning (RPL) system;
- ix) Support the NSDC and key government ministries to strengthen institutional arrangements and coordination to enable the TVET system to meet policy objectives within a coherent skills development framework; and
- x) Support the establishment and operationalization of a National Human Resources Development Fund (NHRDF).

C. Purpose, Objective and Scope of Services.

- i) The purpose of the assignment is to carry out annual financial audit of the SEIP projects implemented by the Twelve (12) IAs, BBSME, BMET, BRTC, TSC, PKSf under Tranche-1 and Thirteen (13) IAs, BIGM, BMET, BRTC, TSC, PKSf, Universities (IBA, BUTEX, EWU, BRACU) under Tranche-2 with some other partner organizations to fulfill the requirements of the Asian Development Bank (ADB). The assignment will engage an audit firm (Chartered Accountants) to carry out the intended audit. The appointed firm will carry out audit over FY of 2018-2019, 2019-2020 (partial) under Tranche-1 and over FY of 2018-2019, 2019-2020 under Tranche-2.
- ii) To cover the maximum training institutes (TIs), the firm will select a sample of training institutes (public and private) each year (without repeating the last year selected IAs) the to the relevant industry associations to conduct audit.
- iii) The objective of the audit of the financial statements is to enable the auditors to express an independent professional opinion on the financial position of the Project as implemented by each of the aforesaid entities as at June 30 each Financial year; and to ensure that the funds provided have been used for their intended purposes.
- iv) All entities receiving support/funding from the SEIP must keep books of accounts and prepare financial statements. Each sector association must maintain adequate internal controls and supporting documentation for transactions. This includes ensuring payments to trainers are through banking channel only and detailed attendance records are maintained for each trainee and that trainees are tracked using their unique identification numbers. A separate bank account shall be maintained for SEIP Project.
- v) This Terms of Reference will include the audit of the IAs and the other partner organizations as stated against para-I below.

D. Tasks and Scope of the Audit

- 6. The auditors are responsible for the formulation of an opinion on the financial statements based on their audit conducted in accordance with ISAs (International Standards on Auditing) issued by the International Auditing and Assurance Standards Board and National Auditing Standards issued by ICAB that comply with ISAs in all material respects will also be accepted.
- 7. The audit will be carried out in accordance with the Standards specified above and will include such tests and verification procedures as the auditors consider necessary under the circumstances. In conducting the audit, special attention should be paid to the following:
 - (a) All funds have been used in accordance with the conditions of the loan agreement, with due attention to economy and efficiency and only for the purposes for which the funds were provided;
 - (b) Counterpart funds (government budget), external funds (in case of co-financing) and contribution of selected associations have been provided and used in accordance with the conditions of the loan agreement and contracts with due attention to economy and efficiency and only for the purposes for which they were provided;
 - (c) Appropriate supporting documents, records and books of accounts relating to all project activities have been kept. Clear linkages should exist between the books of accounts and the financial statements;

- (d) The financial statements have been prepared by project management in accordance with applicable accounting standards mentioned and give a true and fair view of the financial position of the Project as at the year end and of its receipts and expenditures for the year under audit;
- (e) Comprehensive assessment of the adequacy and effectiveness of the accounting and overall internal control system to monitor expenditures and other financial transactions and ensure safe custody of project-financed assets and that they are being used for the intended purposes;
- (f) Review the procurement process of SDCMU, IAs and TIs in context with applicable guideline of ADB and government and verify fixed asset management process (i.e. fixed asset register, physical asset verification, existence and utilization of asset for intending purpose etc.);
- (g) Ensure the compliance of the FM manual and other relevant guidelines with applicable rules and regulation;
- (h) Claims based on milestones achieved are substantiated by supporting documents (such as reconcile the TMS information and enrollment records, attendance records, assessment and certificates of training completion by IAs);
- (i) Ineligible expenditures identified during the audit will be reflected in the management letter and if material, the point should be reflected in the auditors' opinion (report);
- (j) Review and comments on the cash management process for variation expenditure, i.e. petty cash transactions, salary/ remuneration, stipend/allowance (if any) for the trainees, training expenditure, and relevant overhead expenditure etc.; and
- (k) Examine financial statements of training providers-based contracts signed between SDCMU and training providers.

E. Auditor will also ensure the following.

- 8. Principles of orderliness (financial regularity) that ensure the following auditing procedures:
 - a) Authorizations/approvals of expenditures and validity with supporting documents;
 - b) Details of funds received by the training providers and reconciliation with the information supplied by the SDCMU;
 - c) Physical existence and movements of the goods representing the property of the project (inventory items, fixed assets etc.);
 - d) Allocation of expenditures in conformity with the agreed budget(s) mentioned in the business plan;
 - e) Conformity of local contracts with local legislation currently in force;
 - f) Disposition and implementation of observations, adjustments and recommendations resulting from previous financial review reports;
 - g) Arithmetical accuracy of the accounts, supporting documents and financial statements and reports;
 - h) Staffing and proper segregation of duties;
 - i) Correctness of the accounting entries;
 - j) Timeliness of recording economic events and transactions;
 - k) Financial statements and related information are in agreement with the books of accounts;
 - l) Adequacy and completeness of records;
 - m) Assessment of accounts receivable and advances; justification for overdue/unpaid amounts in excess of one month;
 - n) Confirmation of bank balances along with bank reconciliation; and
 - o) Disposition and implementation of observations and recommendations as well as adjustments and recommendations resulting from previous financial review and/or audit reports.

F. Existence, adequacy and effectiveness of the Internal Control System (ICS).

- i) Adequacy of the internal organization (structures, functions, tasks, authority, responsibilities, methods, procedures, segregation of duties etc.);
- ii) Effectiveness of project and financial accounting and reporting processes;
- iii) Adherence to applicable laws, regulations and instructions;
- iv) Physical safeguard of assets;
- v) Prevention of accounting errors, omission, fund embezzlement and financial fraud; and

- vi) Adequacy of information system for financial reporting.

G. Conformity with the project objectives and adherence to the contract.

- i) Agreement of transactions, expenditures and receipts by comparison with the basic project documents (project description, programs of activities, contracts, terms of reference, budgets etc.);
- ii) Verification of goods and fixed assets purchased with allocated funds are utilized within the defined objectives and are still available or have been disposed/sold in conformity with the procedures defined in the project agreement/contract;
- iii) Verify whether the clauses of the project agreement/contract have been complied with; and
- iv) Verify that the expenditures correspond to the agreed budgets and intended purpose. Analysis of deviations between budgeted and actual expenses and substantiation of major budget variations (+/- 10 % of the budget).
- v) With respect to Statement of Expenditures, (a) adequate supporting documentation has been maintained to support claims, and (b) expenditures are eligible for financing under the agreement.

H. Economical conduct of business and effective use of financial resources.

- i) Financial resources are utilized for the activities, as stipulated in the contract signed between IAs and SDCMU;
- ii) Existence and application of adequate measures in the internal control system (ICS) in respect of the utilization of committed resources;
- iii) Application of management procedures relative to the various project
- iv) Transactions. In particular, adequate segregation of duties for vital functions and processes, like entering commitments, authorizing and accounting of Expenditures, reconciliation of cash on hand and in banks, follow-up on long outstanding debtors and creditors, physical control over inventories, etc.;
- v) Expenditures are in line with the agreed budget positions;
- vi) Any deviations of actual expenses from the agreed budget are reasonably explained and adequately documented by the project management;
- vii) Existence of adequate bid and procurement procedures. e.g. best cost/benefit ratio for materials and services, conformity of price offers with local practices and cost levels;
- viii) Confirmation that prices and rates are subject to regular verification and that the accounting system in use is adequate to the requirements of a
- ix) Management tool, particularly as it concerns cost analysis;
- x) Review and substantiation of expenditures of local and foreign experts/consultants (rent, travel expenses, accommodations, allowances etc.);
- xi) Review and substantiation of expenditures related to staff (gross salary, social and pension contributions, income taxes etc.);
- xii) Existence of the vehicle logbook and verification that private use of vehicles has been invoiced and paid; and
- xiii) Verification that private use of mobile and fix net phones by members of the staff has been invoiced and paid.

I. ACCOUNTING UNITS TO BE AUDITED

Association/Partner Organization		Units
Tranche-1		
Sector Associations (IAs)	1	Bangladesh Garments Manufacturers & Exporters Association (BGMEA), Dhaka
	2	Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA), Dhaka
	3	Bangladesh Association of Construction Industry (BACI), Dhaka
	4	Bangladesh Association of Software and Information Services (BASIS)
	5	Bangladesh Engineering Industry Owners Association (BEIOA), Dhaka
	6	Bangladesh Textile Mills Association (BTMA), Dhaka
	7	Association of Export Oriented Shipbuilding Industries of Bangladesh (AEOSIB)
	8	Leather goods and Footwear Manufacturers and Exporter Association

		of Bangladesh (LFMEAB), Dhaka
	9	Bangladesh Association of Call Centers and Outsourcing (BACCO), Dhaka
	10	Bangladesh Women Chambers of Commerce and Industries (BWCCI)
	11	Light Engineering Industry Skill Center (LEISC)
	12	Construction Industry Skill Center (CISC)
Other Partner organization	1	Bureau of Manpower Employment and Training (BMET) (Driving course, City and Guild)
	2	Bangladesh Road Transport Corporation (BRTC) (Driving Course)
	3	Technical School and College (TSC) for Motor Driving
	4	Bangladesh Bank Small and Medium Enterprise (BBSME)
	5	Palli Karma Sahayak Foundation (PKSF)
Total : 17 IAs and other Partner Organization under Tranche-1		
Tranche-2		
Sector Associations (IAs)	1	Bangladesh Garments Manufacturers & Exporters Association (BGMEA), Dhaka
	2	Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA), Dhaka
	3	Bangladesh Association of Construction Industry (BACI), Dhaka
	4	Bangladesh Engineering Industry Owners Association (BEIOA), Dhaka
	5	Bangladesh Textile Mills Association (BTMA), Dhaka
	6	Association of Export Oriented Shipbuilding Industries of Bangladesh (AEOSIB)
	7	Leather goods and Footwear Manufacturers and Exporter Association of Bangladesh (LFMEAB), Dhaka
	8	Bangladesh Association of Call Centers and Outsourcing (BACCO), Dhaka
	9	Industry Skill Council (Hospitality and Tourism)
	10	Bangladesh Agro Food Processing Association (BAPA)
	11	Real Estate and Housing Association of Bangladesh (REHAB)
	12	Light Engineering Industry Skill Center (LEISC)
	13	Construction Industry Skill Center (CISC)
Partner Organization	1	Palli Karma Sahayak Foundation (PKSF)
	2	Bangladesh Institute of Governance Management (BIGM)
	3	Bureau of Manpower Employment and Training (BMET) (Driving course, City and Guild)
	4	Bangladesh Road Transport Corporation (BRTC) (Driving Course)
	5	Technical School and College (TSC) for Motor Driving
	6	Dhaka University-IBA(Institute of Business Administration)
	7	Brac University (BRACU)
	8	Bangladesh University of Textiles (BUTEX)
	9	East-West University (EWU)
Total : 22 IAs and other partner organizations under Tranche-2		

J. Qualification of Firm and Staffs

Sl. No.	Position	Qualification and experience
1.	Firm	"A" ranked Audit Firm (Chartered Accountants) as per Bangladesh Bank rating.
2.	Team Leader / Audit Specialist	Chartered Accountant having 10 (Ten) years relevant practicing experience, preferably in international and development organization and government accounting system.
3.	Audit Manager	Chartered Accountant having 2(Two) years relevant experience / CA Intermediate or Application level passed having 5(Five) years post Articled relevant experience, preferably in international and

		development organization and government accounting system.
4.	Senior Audit Staff 3(Three) – 3 persons	CA Articled having 2(Two) years (after registration) relevant experience in public and private sector and knowledge level qualified.
5.	Junior Audit Staff 3(Three) positions	CA Articled having 1(One) year (after registration) relevant experience

Inputs:

Sl. No.	Position	Inputs
1.	Team Leader / Audit Specialist	2.5 PM spread over two years, 1.25 PM for auditing Fiscal year 2018-2019 and 1.25 PM for auditing Fiscal year 2019-2020 covering Tranche-1 and Tranche-2
2.	Audit Manager	2.5 PM spread over two years, 1.25 PM for auditing Fiscal year 2018-2019 and 1.25 PM for auditing Fiscal year 2019-2020 covering Tranche-1 and Tranche-2
3.	Senior Audit Staff 3(Three) – 3 persons	3x2.5 PM spread over two years, 1.25 PM for auditing Fiscal year 2018-2019 and 1.25 PM for auditing Fiscal year 2019-2020 covering Tranche-1 and Tranche-2
4.	Junior Audit Staff 3(Three) positions	3x2.5 PM spread over two years, 1.25 PM for auditing Fiscal year 2018-2019 and 1.25 PM for auditing Fiscal year 2019-2020 covering Tranche-1 and Tranche-2

K. Content and Structure of Auditor's Report

9. The audit report will comprise (i) the auditors' opinion on the project financial statements and (ii) a complete set of project's financial statements and other relevant statements as mentioned. The auditor will provide a specific opinion as to whether (i) loan proceeds have been utilized for the purposes intended, (ii) financial covenants, in the loan agreement have been complied with, (iii) financial and related covenants, in the contract signed between SDCMU and IAs and provide a status of compliance.

10. All ineligible expenditures will be disclosed in an annex to the audit report.

L. Management Letter.

11. In addition to the audit report, the auditors will prepare a "management letter" in which they will:
- Give comments and observations on the entity's internal controls, including accounting records, procedures, systems and controls that were examined during the course of the audit;
 - Identify specific deficiencies and areas of weakness in systems and controls and project and accounting procedures, and make recommendations for improvement;
 - Explain and quantify any adjusting and/or reclassification entries;
 - Report on the degree of compliance with each of the financial covenants on the Loan/Grant agreement and give comments, if any, on internal and external matters affecting such compliance;
 - Report on the implementation status of recommendations pertaining to previous period audit reports;
 - Communicate matters that have come to their attention during the audit which might have a significant impact on the implementation and sustainability of the project; and
 - Bring to the IAs attention any other matters that the auditors consider pertinent.
 - Follow-up audit recommendations made in preceding years.

12. Serious issues, which affect the auditor's opinion as to whether financial statements give true and fair view, should be referred to in the audit opinion. Management Letter should include only those issues which do not affect the fairness of the financial statements.

Ideally, the management letter will include response/comments from the sector Associations and other partner organizations on the weaknesses noted by the auditors.

M. Deliverables and Payment Procedure.

13. The auditors will ensure that the financial statements are prepared in accordance with the Bangladesh Financial Reporting Standards (BFRSS) and the financial statements present true and fair view of the financial position of the project as at the end of financial year and its operating results for the financial year.

14. The financial statements prepared shall include:

- Statement of cash receipts and payments
- Statement of budget vs actual expenditures
- Statement of imprest account (if applicable)
- Statement of expenditures (if applicable)
- Significant accounting policies and explanatory notes and any additional schedules (e.g., summary of assets)

15. The draft audit report would be disseminated to the relevant EA and IAs officials and ADB through a workshop and prepare necessary presentation. Feedback of participants of the workshop would be incorporated in the revised draft report and submitted to ADB and SDCMU for comments. Final report has to incorporate all comments from ADB and SDCMU.

Reports	Contents	Copies	Submission Time	Payable Amount
Inception Report:	Audit plan and time table with sample size of IAs/TIS/PTIS for auditing	2 copies for ADB and SDCMU	Within 7 days from the date of contract.	10.0% of total contract amount.
Draft Report	As per ToR	One copy for each IAs along with soft copy	22 days from the date of Inception Report.	20.0% of total contract amount
Report on completion of dissemination workshop (1 workshop)	Report on completion of 1 workshop as follows: (a) report on the main contents of the workshop including selection of participants and tentative cost estimation, (b) report on conducting the workshop; (c) compilation of the feedback of participants, and submission of complete set of vouchers for all expenditures.	3 copy for SDCMU and ADB along with soft copy	25 days after submission the draft report and finishing the dissemination workshop (Date will be fixed by SDCMU)	30.0% of total contract amount
Final Report		Individual report for each Association-5 copies and Consolidated report-5 copies along with soft copies.	5 days after draft discussion.	40.0% of total contract amount

The above timing schedule and reporting Requirement will be applicable for auditing the two financial year (FY 2018-2019 and 2019-2020) stated herein. All reports must be prepared and presented separately for Tranche-1 and Tranche-2.

N. Exit Meeting with IAs.

16. After the completion of the audit work the auditor shall hold an exit meeting with the IAs to address the audit findings and weaknesses in internal control system (ICS) and shall prepare a minute of the meetings with authorized by the auditors and any IAs.

O. Language of the Financial Review Report.

17. The audit report of the auditor and all other documents resulting from the audit engagement must be in English.

P. Signature.

18. The audit report is to be signed by representative of the auditor as per national law.

Q. Assignment Period.

19. The Assignment Period will be two (2) years. In this period the Auditor will audit the auditing aspects of Financial Year 2018-2019 and 2019-2020.

R. Client's Input and Counterpart Personnel.

20. The client will provide financial support as per contract for the assignments and will invite the consultant team for regular update and participation in meetings with the key implementing Agency. One AEPD and a Specialist at the SDCMU, SEIP will coordinate and facilitate this assignment.