TERMS OF REFERENCE

Consultancy Services for Forensic Audit of Rural Electricity Transmission and Distribution (T&D) Project
under
Technical Assistance Project Proposal (TAPP) of
Rural Electricity Transmission and Distribution (T&D) project of IDA
(Credit No: 5381 BD).

Bangladesh Rural Electrification Board (BREB)
June 2017
Terms of Reference

The Government of Bangladesh has received US$ 600 million equivalent financing from the World Bank toward the cost of the Rural Electricity Transmission and Distribution (T&D) Project. Bangladesh Rural Electrification Board (BREB) and Power Grid Company of Bangladesh Limited (PGCB) are two implementing agencies of the project.

This project hopes to address four areas for improvement within the rural electricity system: (i) to reduce the current rates of technical and non-technical system loss (currently estimated at an overall average of 13.5% though there would be significant differences in each individual area), (ii) to improve power system reliability levels, (iii) to upgrade the medium-voltage distribution system through the construction of substations and primary distribution lines as well as associated transmission lines, and (iv) to strengthen the institutional capacity of BREB.

The project has about 115 procurement packages (distribution line materials, construction of distribution lines, substations etc.) implemented/under implementation by BREB and 5 packages (transmission lines, substations etc.) by PGCB.

Governance and Accountability Action Plan (GAAP) of the project requires a forensic audit to be conducted on the project’s procurement, financial management, and implementation of social safeguard and environmental policies as agreed in the project’s legal agreement. Such in-depth review will help the implementing agencies to identify any weaknesses in implementation and will provide for opportunities for strengthening the systems for ensuring achievement of project objectives with economy and efficiency.

Forensic auditing is a technique to methodically determine whether financial transactions for project activities (both procurement and operational) are in consonance with various accounting, auditing and legal requirements and eventually determine whether any fraud has taken place. Forensic auditing is a blend of accounting, auditing and investigative skills. The thoughtful and efficient use of forensic audit often offers the right balance between conducting routine audits and investigating for possible fraud. A predicate must exist before an investigation is undertaken. A predicate is the totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe a fraud has occurred, is occurring, and/or will occur.

Conducting a forensic audit includes selecting a sample of contracts (15%) and sample of other expenditures based on FM risk, and performing a detailed review of the procurement, FM procedures, and compliance of social safeguard and environmental policies followed to determine their compliance with the agreed provisions in the legal agreement. In addition, fiduciary reviews examine the systemic processes and controls surrounding the fiduciary (Procurement & FM) practices of BREB and PGCB based on the contracts and other expenditure reviewed and suggests measures for improvement, if any.

Forensic audit also includes asset verification, accuracy and effectiveness of financial management system, comprising input, processing, output and master file controls, end-use audit, price comparability, and reporting any indication of irregularities, and technical review.

Objective

The objective of the forensic audit for the project is to put in place a review process to ensure that:

- The Project funds for the project are used for the purposes intended [includes sample site visits or physical inspection];
- Appropriate controls are in place to prevent or detect material misstatements, and other irregularities.
- The procurement procedures outlined in the Procurement Guidelines and Credit Agreements are followed;
• Economy, efficiency and effectiveness has been achieved in the procurement process consistent with transparency;
• Assets specified in procurement records provided by the respective project office exist at the location;
• Broadly validate the assets are used for the purpose they were acquired for;
• Social safeguard and environmental policies are compiled with and the project affected persons as listed in the Resettlement Action Plans are properly compensated;

**Scope of Forensic Audit**

The scope of the Forensic Audit includes the following and any additional areas that the Consultant might consider necessary during the review:

- Review of the Internal Control Framework for the project. This will include but not limited to assess whether internal control procedures are sufficient to prevent financial irregularities and misappropriation are in place; approval procedures and delegation of financial authority exits; segregation of duties, clarities on roles and responsibilities are defined; reconciliation procedures functions; procedures followed for verifying receipt and acknowledgement of goods and services with agreed quality and timeline.
- Review and analyze the potential red flags that may indicate inappropriate financial reporting schemes, misappropriation of assets, inappropriate use of project asset and expenditures and liabilities for an improper purpose. The auditor should apply appropriate technique of detecting irregularities and deviations. The auditor must be proficient to thoroughly understand and be alert to potential red flags that are possible indicators of irregularities and likely indicators of areas requiring further analysis.
- Determine total expenditure of the project in a particular year and find out the categories (works, goods, services, operating and miscellaneous) under which these were claimed and whether right category and percentage of financing were used.
- Identify expenditures which have been made but are not eligible for funding from project funds, i.e. proceeds of IDA credit and counterpart funds;
- Conduct physical on-site verification of assets and their intended use, services rendered as described in the payment documents or contracts and verify whether any payments made before actual receipts of goods and services and beyond contract clause. Evidence of work may include photographs of the goods and works by the consultants, written acknowledgement from beneficiaries, participants, stake-holders and other third parties, supporting documents from venues for workshops, training center etc.
- Verify whether assets procured under the project funding is numbered, exist at right location, up-to-date register is maintained and physical verification is periodically done.
- Examine whether the transaction prices or value are unduly inflated; whether liquidated damages have been charged and recovered as per contract, whether payments were made for substandard goods/equipment instead of intended product.
- Conduct verifications which may be extended to third party check to confirm eligibility of expenditure especially for hired venues for training, workshop and business meeting.
- Examine the advances from project account, especially for training events to determine eligibility of expenditure i.e. conforms to existing policy and rules and reasonableness of time for adjustment. Verify whether any form advances are claimed as actual expenditure.
- Review of the arrangements for managing the Designated Accounts, including tracing all withdrawals and transfers from the DA to Operating Account and determine these are maintained and operated as per agreed arrangements. Unspent balance is returned or adjusted and confirmation is obtained. Find out whether project fund is held in any unauthorized bank account.
- Examined payments related to tax, vat duty etc. and find out whether these were paid and deposited into government treasury as per government prescribed rate and time and all documentary evidence is available.
Assess the procedure of enrollment of beneficiaries like, student, teachers, community members, workers were correctly made as per agreed framework and examine whether payments are made to eligible recipients with sufficient audit trail in place.

Verify on cases whereby material cash payments are made for any project expenditure, particularly for goods or services which would otherwise be made using cheques and confirm the reasons for this and the justification. Also, verify the whether cash withdrawn in personal name and time line within which cash were fully expensed.

Examine reported corruption or red flags if any, from any source and substantiate the irregularities. Also, verify fraud prevention and detection mechanisms that may exist in the project.

Verify the quality control procedures and lab facility being used by the executing agencies and contractors and comment upon the resources employed to meet project standard. They will comment on adequacy and acceptability of laboratory and site tests performed during construction. They will report on compliance of construction as per the test results.

Verify the procurement and construction documentation and measurement and certification records and provide professional review as per the relevant technical standards.

Pay field visits to few selected sample contracts (based on the modality given below) to check the quality and quantity of the works executed and examine the change orders. They will make physical/visual inspection of construction and witness some of the tests. They will note progress of construction and make forecast on completion. They will also verify construction quality to meet specifications of material, workmanship. They will verify if the infrastructure rehabilitated is being used for the agreed purposes.

They will review Bill of Quantity, documents of the Test Results and check how Variation Orders are handled and see if proper documentation is maintained.

Develop project wise check lists and reporting templates to report on the quality of work and progress. Prepare a detailed technical audit report with photographs and summary of findings and recommendations/mitigation measures to improve quality of works and to complete the works within stipulated time.

Examine whether the projects maintains all necessary books of accounts and that the information used to prepare the FMR/IFR is extracted from the project cashbook and ledgers; Bank reconciliation is done in a timely manner and Statements are available.

Verify through site visits (15% of the works contracts – BREB 10 contracts, PGCB- 2 contracts) and interviewing project affected persons that the social safeguard and environmental policies are complied with and the project affected persons as listed in the Resettlement Action Plans were properly compensated;

Make appropriate recommendations and discuss initial findings with the implementing entities.

Required qualification of the consultant

- Professional accountant with minimum 15 years of post-qualification professional audit experience including demonstrated practical experience in the field of investigation, forensic audit and asset /inventory management. The auditor should be able to apply special skills in accounting, auditing finance, quantitative methods, certain areas of the law, research, and investigative skills, to collect, analyze and evaluate evidential matter, and to interpret and communicate findings. Certification from the Association of Certified Fraud Examiners (ACFE) is preferable.

Team Composition

1. Team leaded (professional accountant) – 1 expert
2. Procurement Expert – 1 expert
3. Social and environment safeguard expert- 1 expert;
4. Technical expert (power sector) – 1 expert;
Outputs

The consultant will prepare an (i) Inception Report containing sampling approach and work-plan (ii) Draft Report, (iii) which upon review by the project team and the Bank and the client will submit a Final Report.

The project team shall arrange the following information/documents for the consultants

- Copies of the applicable Procurement and Consultancy Guidelines;
- Copies of the Credit Agreements with the borrowers;
- Copies of the bidding documents approved for a particular project;
- Copies of Procurement Plans;
- The withdrawal applications where SOE procedure has been used to make a selection of representative samples;
- Copies of social safeguard documents (resettlement action plans) and relevant payment information to the affected people;

Consultancy Period

The period of consultancy will be 2.5 months beginning the date of signing of the contract.

Timetable and Reporting

<table>
<thead>
<tr>
<th>Deliverable</th>
<th>Anticipated Date</th>
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<tbody>
<tr>
<td>Commencement of service</td>
<td>Nov 2017</td>
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<tr>
<td>Inception Report</td>
<td>15 days from commencement of service</td>
</tr>
<tr>
<td>Audit field work</td>
<td>45 days from commencement of service</td>
</tr>
<tr>
<td>Draft Report</td>
<td>60 days from commencement of service</td>
</tr>
<tr>
<td>Final Report</td>
<td>75 days from commencement of service</td>
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Terms of Payment

The Bank shall pay the contract amount as per the following schedule:

<table>
<thead>
<tr>
<th>No. of Installments</th>
<th>Percentage of contract price</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment 1</td>
<td>25 % of the contract amount</td>
<td>Submission of Inception Report acceptable to the Employer</td>
</tr>
<tr>
<td>Installment 2</td>
<td>40 % of the contract amount</td>
<td>Submission of draft report acceptable to the Employer</td>
</tr>
<tr>
<td>Installment 3</td>
<td>35 % of the contract amount</td>
<td>Submission of final report acceptable to the Employer</td>
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Reporting Requirements

The consultant will be engaged by BREB. However, the consultant will work closely with both BREB and PGCB and report two Project Directors of BREB and PGCB for their parts of the review. BREB will conduct the co-ordination role.