

Terms of Reference (ToR)

FOR

CONSULTING SERVICES FOR STRENGTHENING THE OFFICE OF THE AUDITOR GENERAL OF NEPAL (OAGN)

Audit and IT Services

Contract Id. No. NP-OAGN-CS-1

I. Introduction

- 1. Public financial management (PFM) is the center point to the Government of Nepal's strategy** for ensuring effective resource allocation, strengthening public service delivery, and creating inclusive and broad-based development. Nepal has taken significant strides reforming its downstream PFM processes and system. These were undertaken with the objective of ensuring a transparent, efficient, economical, and accountable use of public resources. As part of its reform effort, the Government of Nepal in 2009 established a Public Expenditure and Financial Accountability (PEFA) Steering Committee as an apex body and set up a PEFA Secretariat; and in both 2008 and 2015 carried out PEFA assessments.
- 2. Underscored by Multi Donor Trust Fund (MDTF) focuses on 3 priority outcomes.** These outcomes are (a) strengthened efficiency and results orientation of the budget cycle at federal and sub national levels, evidenced by improvement in the capital budget execution rate and tax collection and supported by improved tax administration processes and efficient PFM-related IT systems; (b) increased professional capacity of key PFM stakeholders, improving capacity-building institutions, and enhancing capacity of the PEFA Secretariat to design, manage, and coordinate PFM reform; and (c) enhanced PFM accountability by means of a strengthened external audit function, increased transparency and citizen participation in the budget process, and increased involvement of relevant Parliamentary committees and oversight bodies.
- 3. The Government of Nepal has received a Grant from the Nepal Multi Donor Trust Fund (MDTF) for Public Financial Management (PFM) towards meeting the objectives of the proposed strengthening the Office of the Auditor General Project.** The main objective of the Grant is to enhance the quality and impact of public sector audit in Nepal. The Grant has become effective by August 2018 and will close on June 30, 2021.
- 4. The OAGN recognizes a need to address three key challenges in public audit function.** These are (a) deepening knowledge and coverage of new International Organization of Supreme Audit Institutions (INTOSAI) standard compliant methodology, (b) strengthening quality assurance and audit follow-up function, and (c) providing new local-level audit requirements. The Supreme Audit Institutions (SAI) PMF report 2014 notes that specific interventions must address these challenges. **The new federal structure presents opportunities and challenges to develop an engagement that is anchored in the shift underway in the country's political history.** Strategic fit of the proposed Integrated PFM Reform Project lies primarily in providing essential technical assistance to implement the new policy framework. In this context, the project will

consolidate and build on the foundations created at the federal level by the continuous PFM reforms and establish building blocks for a coherent and integrated PFM framework in federal- and sub national-level arrangements. Projects will have a strong downstream focus while also focusing on strengthening essential upstream processes. The project financed by the Grant is a part of the Government of Nepal's Public Financial Management Reform Strategy/Program (PFMRP) Phase II (2016/17-2025/26). The PFMRP adopts a holistic, government-wide approach that encompasses strengthening of institutional and technical aspects. The PFMRP is intended to be a gradual, long-term process that requires political will and commitment, and that will contribute towards reduced fiduciary risks, increased transparency, and increased accountability.

II. Institutional Arrangements

5. Institutional and implementation arrangements consist of three major elements. These elements are (a) PEFA Steering Committee at strategic level; (b) overall project coordination by the PEFA Secretariat; and (c) implementing agencies and their project teams or project focal persons comprising existing staff, at operational level.
6. The PEFA Steering Committee, chaired by the Finance Secretary, and senior-level representatives from various core PFM agencies/ministries, including OAGN and Public Procurement Monitoring Office (PPMO), provide strategic direction to project implementation and ensure achievement of project development objectives.
7. The PEFA Secretariat coordinates and facilitates the implementation of three components. Implementation of project activities rests with government ministries, departments, and agencies aligned with their institutional mandates. These implementing agencies, including the PPMO and OAGN, are responsible for preparation of their procurement plans and annual work plans as well as for the financial management and procurement of their respective activities.
8. The proposed ToRs will fall under the OAGN component and the consulting firm shall report to the OAGN **Management Committee** chaired by the Program Coordinator. The Management Committee will monitor the progress of the consultants. The **Program Coordinator** (designated Assistant Auditor General) will serve as the primary focal point and liaison person for the day-to-day operation and implementation of the consultant's work program.

III. Objective of the Assignment:

Enhancement of quality of Audit works through improvement of audit methodology, effective use of IT system and citizen engagement in public audit.

IV. Scope of Consulting Services

9. The consulting assignment comprises of following activities.

PART I.

- a. **Provide technical advice in the preparation of the annual audit plans for federal and sub-national governments.** This activity will build upon OAG Nepal's earlier efforts to implement risk-based auditing, to ensure that the risk analyses carried out determine the nature, scope and extent of audit testing. This would include use of Nepal Audit Management Information System (NAMS) for risk-based planning for the federal, provincial and local level. The risk-based planning should create necessary space that the OAGN requires to meet its extended mandate. This activity also includes the support on formulation of 4th strategic plan of OAGN based on 2nd assessment based on SAI Performance Measurement Framework conducted. The consultant shall update the code of ethics in line with INTOSAI Framework for Professional Pronouncement (IFPP) which will be translated into Nepali and get it printed in 500 copies.

- b. **Update the existing manuals.** Consultants engaged under the project will be available for consultation by the OAG management on policy and topical issues. This will include, developing and updating auditing standards, sectoral audit guides, manuals, checklists in the context of segregation of financial, performance, compliance audit in the light of changes introduced through the federal structures and requirements of the new mandate and translate in Nepali language and get it printed at least 500 copies in each language. Consultant shall organize cross learning with more advanced SAIs on conducting financial, compliance and performance audit separately in the participation of at least 40 officials, audit of Sustainable Development Goals (SDGs), environmental audit, disaster management etc. in accordance with international standards and good practices. The consultants shall also conduct training need assessment and prepare a three-year training plan and advice on nomination of staff for trainings and carry out rollout training to all audit staff in financial, compliance and performance auditing considering the updated standard manual and directives. A training directorate will be strengthened in the office of the Auditor General. The consultant shall also support the strengthening of Audit Quality Assurance Unit by developing and updating guidance documents enhance skill and knowledge of staff and provide required training to conduct quality assurance review in ICT environment. This activity also includes developing indicator to evaluate the financial accountability assessment of 3 levels of government.

PART II.

- a. **Deepening the use of Nepal Audit Management Information System (NAMS);** The NAMS has been designed to enhance efficiency and effectiveness of the audit management process; however, its sustainability depends on many factors such as proper management and organization of the OAGN IT function, IT governance, security management, and allocation of adequate resources. This subcomponent will (a) formulate IT policies and functions of OAGN that ensures NAMS and Electronic Working Paper (EWP) sustainability; (b) conduct gap analysis on NAMS and EWP to address the current requirements and context of

federal, provincial and local level audit (c) update NAMS and EWP to manage audit in online and offline environment considering the gap identifies or develop new audit management software (d) enhance capacity of federal, provincial and local level auditors on use of NAMS and EWP e) The NAMS and EWP provide for creating a database of audit findings and observations, which would be constantly populated by ongoing field audits using electronic working papers f) provide solution for sustainable use of IT system developed or updated g) populate previous 10 years audit observations in NAMS and create updated database h) extend the use of NAMS for audit follow-up with the line ministries and monitoring of implementation of audit recommendations by the PAC.

- b. **Establish IT excellence center;** An IT audit excellence center will be established with in the office of the Auditor General to; a) organize cross boarder learning in using IT system to manage audit b) create system of connectivity in NAMS and EWP with LMBIS, BMIS, eGP, RIMS, TSA and SuTRA data and develop skills with in OAGN to download data from the information systems; c) train 40 auditors in use of NAMS and trouble shoot issues as these arise in the use of NAMS and EWP; d) identify and suggest ICT requirements and resources and design administrative software to aromatize the function of the OAGN; e) organize 40 pilot audits using updated NAMS and EWP; f) finalize the NAMS and EWP considering the feedback from pilot audit; g) organize roll out training to 400 OAGN staff on Audit Management Software h) develop a data base of information by collecting data from other entities and using the data for smart data analysis and better use of 15 IDEA software which should be procured and provided by the consultant to the OAGN; h) tracking system for monitoring of follow-up of audit recommendations.

- c. **The consultant shall develop proof of concept** in the use of artificial intelligence in audit of database captured from Line Ministries Budget Information System (LMBIS), Treasury Single Account (TSA), Budget Management Information System (BMIS), Sub National Treasury Regulatory Application (SuTRA), TSA and eGP for risk based audit.

- d. **Disruptive technology;** The OAGN plans to establish a two-way citizen feedback system through innovative use of IT solutions. Mobile audit application will also be designed to enhance collaboration with stakeholders. Awareness will be created to use and share information using mobile application. This will include up-grading the OAGN website to enable citizen engagement and implementing a grievance redressal system and a monitoring system of field auditors at the center and in provinces. Four pilot audits will be undertaken by using innovative solution like use of mobile phones technology etc.

Part III

10. Strengthen Performance audit function and citizen participatory audit (CPA)

- i. Conduct study and update CPA and performance audit guide, manual, checklists and other related documents as per International good practices.

- ii. Support to conduct pilot performance audit in accordance to CPA guideline and methodology with greater collaboration with Civil Society Organizations (CSOs) and other stakeholder.
- iii. Organise an intensive training programme in performance audit and citizen participatory audit and disaster audit both at federal and sub national level.
- iv. Support in increasing the proportion of performance audits.
 - v. Create awareness among the civil society organization and organize workshop in conducting performance audit and facilitate the process of involving CSOs in audit with logistic support.
 - vi. Assist OAGN in standardizing its publication of performance audit report and its dissemination at the local level and sharing the major findings, briefing, CSOs and other stakeholder.
- vii. Support OAGN in creating a database to map CSOs and think tanks at the sub national level.
- viii. Support OAG in developing CSO selection criteria for participation audit at the district level and in designing and delivering capacity development program for participation of CSOs in the performance audit at sub national level.
- ix. Organize cross learning to at least 30 staff with advance SAIs in performance audit and environment audit.
 - x. Conduct Stakeholder satisfaction survey on Audit.
 - xi. Support drafting of final performance audit report and submission to core audit team
- xii. Organized workshop for training Public Accounts Committee (PAC) member on different audit report, CPA, Key findings and recommendation of audit report and their role in executing audit recommendations.

V. Qualification Requirements of the Consultant

11. The Consultant is expected to have a thorough knowledge of international standards and best practices for Supreme Audit Institutions (SAIs). The Consultant will be well versed in the issues of SAIs in developing countries, specifically in respect of effective measures for enhancement of audit skills and capacities, governance structures, institutional arrangements, audit methodologies, and management practices. The Consultant is expected to have extensive experience in demonstrating sustainable results through similar assignments in other developing countries. The lead firm may enhance its experience and qualifications through association with other firms including qualified national audit firms and software developing firm in the form of a joint venture with a public-sector audit institution that adheres to the INTOSAI Framework for Professional Pronouncement framework would be desirable.
12. The Consultant's primary approach during the assignment will be by way of transferring knowledge and building the capacity of the audit office through "learning by doing". The Consultant will ensure the suitability of the knowledge to be transferred through pilot testing and field testing of the approaches developed. The Consultant will be expected to transfer knowledge to a sufficient number of financial, compliance audit and performance

audit champions and counterpart staff with the skills and tools necessary to sustain the improvements introduced during the project after the closing date of the Grant.

13. The Consultant is encouraged to form association with the national audit and software development firms for knowledge transfer and sustainable use of the knowledge gained through the assignment. The Consultant should have expertise in the specialist skill areas required for this assignment, including (i) current in-depth knowledge of international standards and best practices for SAIs; (ii) proven track record in effectively managing similar capacity building and institutional strengthening reform initiatives with suitable change management strategies; and (iii) experience in developing and establishing Audit Management Information Systems or related information system, CAATs and use of disruptive technology in audit.
14. The Consultant's Team Leader will assume overall responsibility for successfully delivering the contractual obligations of the assignment. The Team Leader will have vast international experience and responsible for maintaining the project strategic focus and undertaking and proposing changes in implementation as required ensuring that the project development objectives are achieved within the duration of the project. The Consultant will provide the Team Leader with back up from the home office on material issues that may significantly impact on the success of the assignment. The other key international staff include the financial and compliance auditor, performance auditor, Information technology auditor. The Consultant may propose a number of national consultants as key staff which include financial and compliance auditor, senior software engineer and IT application developer.
15. Consultant shall bear the cost of organizing cross learning training to the staff by inviting the international experts who have a lot of experience in designing and implementing audit methodology in their supreme audit institutions or experts from the SAI which has twinning arrangement with OAGN. Other costs related to the training within Nepal are to be provisioned by the Consultant.
16. Consultant is required to provide administrative and facilitation service for the international training, exposure visits and twinning arrangement if requested by the client. Costs incurred for such facilitation are to be reimbursed to the Consultant on Provisional sum basis. However, the costs related to the participation will be borne by the client.

VI. Duration and Commencement of the assignment

- VII.** The estimated duration of assignment is 24 months and expected to commence in May 2019. **Staffing Requirement of Key Personnel**

17. No dependent agencies of GON or OAGN or their employees or former employees who retired or resigned within 3 years shall be permitted to submit or participate in the proposal. The suggested composition of the Consultant team as set out below is indicative. Consultants are free to make their own estimate/assessment of the staff requirements to complete the entire assignment with highest quality and standard.

18.1 International

Team Leader: A senior audit management expert must have international and Post graduate degree preferably in Economics/ Business/ Accounting/

Commerce/Management with at least fifteen years of international experience in the field of public audit management including audit management information system, Computer Assisted Audit Techniques for improved audit outcomes. The team leader will be an expert in change management and will have extensive experience in successfully managing similar development projects in developing countries.

Financial and compliance audit expert: A senior public audit expert must have international and Post graduate degree preferably in Economics/ Business/ Accounting/ Commerce/Management, and professional accounting/ public finance qualification or certified public accountant with at least fifteen years' international experience in conducting risk-based auditing in the public sector. The expert will be thoroughly knowledgeable in all aspects and stages of the financial audit and compliance audit, including preparation of office-wide plans as well as planning, conducting and reporting individual audits. The experience of segregating public audit in financial and compliance is desirable. The expert will have knowledge of quality assurance techniques and be knowledgeable in the use of computer audit technology to maximize the efficiency and effectiveness of financial and compliance audits.

Performance audit expert: A senior public audit expert must have international and Post graduate degree preferably in Economics/ Business/ Accounting / Commerce / Management with at least fifteen years' international experience in conducting performance auditing in the public sector. The expert will be thoroughly knowledgeable in all aspects and stages of the performance audit, including preparation of planning, conducting and reporting individual audits. The expert will have experienced in conducting citizen participatory audit and mobilizing Civil Society Organization for public audit purpose.

Information Technology audit expert: A senior Information Technology audit expert must have Graduate Degree preferably in Economics/ Business/ Social Science/ Accounting / Management with professional qualification in IT to meet the requirements. The expert should have at least 10 year experience on conducting IT audit of information system of the public sector organisations and also using CAATs in audit.

18.2 National

Deputy Team leader A deputy team leader must have Post graduate degree preferably in Economics/ Business/ Accounting/ Commerce/Management, and or professional accounting/ public finance qualification or certified public accountant with at least 20 years' experience in conducting risk-based auditing. . The expert will be thoroughly knowledgeable in all aspects and stages of the public audit, including preparation of office-wide plans as well as planning, conducting and reporting individual audits. Expert should have an experience of conducting performance audit experience. The expert will have knowledge of quality assurance techniques and be knowledgeable in the use of computer audit technology to maximize the efficiency and effectiveness of audits.

Public Sector Audit Training Expert A national public audit training expert must have Post graduate degree preferably in Economics/ Business/ Accounting/ Commerce/

Management, and or professional accounting/ public finance qualification or certified public accountant with at least 20 years' experience in public auditing. The expert will be thoroughly knowledgeable in all aspects and stages of the public audit through audit management software, including preparation of office-wide plans as well as planning, conducting and reporting individual audits. Expert should have an experience of conducting performance audit experience. The expert will have experienced in delivering public audit training and should be knowledgeable in the use of computer audit technology to maximize the efficiency and effectiveness of audits.

Senior Software Engineer must have Graduate Degree preferably in Computer Engineering with professional qualification in IT to meet the requirements for knowledge on computer - hardware and software and use of computer in audit management, having at least ten years of working experience in planning, designing and developing audit management or related software in public sector and data base management system.

IT Application Developer must have Graduate Degree preferably in Computer Engineering/Information technology proficient in developing software applications using state of the art technology and having at least seven years of working experience in the field of software development.

IT support team shall consist of three to four local technical staff including data base, Network and system administrators.

VIII. Deliverables over the period of performance

18. The Consultant will report to the Project Coordinator and be responsible for the following deliverables:
 - Draft inception report and draft first annual work plan within 4 weeks of the commencement of the assignment;
 - Final inception report and first annual work plan within 6 weeks of the commencement of the assignment;
 - Annual work plans detailing the activities and expected results by component of the project
 - Draft technical reports will be submitted to the Project Coordinator and to the Management Committee for approval before delivery of the technical reports;
 - Monthly progress reports detailing planned and actual progress in relation to approved annual work plans and highlighting remedial action required, if any;
 - Annual assessments of results in comparison to the expected results articulated in the agreed Results Framework in the Project Paper;
 - Draft semi-annual, mid-term and final reports will be required 2 weeks before the applicable twice-yearly review meetings of the Management Committee. Minutes of Management Committee meetings and the final reports will be required 2 weeks after the review meetings;

- Draft project completion report providing details of work performed during the assignment correlating with each of the benchmarks, problems encountered and resolved and recommendations/proposals for refining operational guideline and financial audit manual. Also, provide response to feedback of the Management Committee on the draft report on behalf of OAGN.

IX. Client's Input

Data, personnel, facilities and local services to be provided by OAGN

19. All relevant documents, reports, rules, regulations, data and information pertaining to the assignment will be made available to the Consultant for its reference in carrying out its work under the project. All materials provided to the Consultant, all outputs of the project, and all goods procured with project funds shall remain the property of OAGN.
20. In addition to the staffing of the Management Committee as set out in paragraph 5, OAGN shall assign sufficient numbers of competent counterpart staff to work with the Consultant team on all activities of the project.
21. The Consultant will be responsible for obtaining work permits, visas and completing other formalities as required, and to comply with existing rules concerning tax, VAT and other applicable laws and regulations of the country. OAGN will provide facilitation for obtaining the above documents and competing other necessary formalities for foreign firms and experts.

X. Consultant Selection Method:

The Consultant will be selected in accordance with the Quality and Cost Based Selection method as outlined in the World Bank's Procurement Regulations for Borrowers, July 2016, revised November 2017 and August 2018.

XI. Confidentiality by the Consultant

22. All outputs created by the Consultant are the property of the OAGN and should be kept secure until the files are transferred to the OAGN. The information they contain must not be made available to others.