

## PART B TERMS OF REFERENCE

### Short Term Technical Assistance to undertake Independent Systems and Financial Audits Of Selected State Owned Institutions and Revenue Generating Agencies in Liberia.

#### Definitions

**AIDCO:** EuropeAid Co-operation Office

**Audit Task Manager:** Resident Adviser of the Office of the European Commission in Liberia.

**Consultant Audit Team/Contractor:** The consultant whose offer has been accepted by the Commission and who has signed the order form

**Commission:** The AIDCO service which can take a position or provide an authorisation

**Finance Manager (“gestionnaire financier”):** Commission Official in the Financial and Contractual Management Unit in charge of checking payment claims of a programme, proposing commitments, payments, recoveries, etc.

**Team Leader:** The expert who leads the audit team in the field

**Mission:** On site visit for audit purposes

**Task Manager (“gestionnaire opérationnel”):** Resident Adviser of the Office of the European Commission in Liberia.

#### 1. Rational and Background

Liberia has been severely affected by the protracted internal conflict that erupted in the late eighties. Charles Taylor began his insurrection in 1989 and was elected President in 1997. Rebel groups have been fighting against Taylor between 1990 and 1997 and again to overthrow his Government from 1999. Respect for the rule of law, democracy and human rights has been minimal on all sides. Following the rebels' advance in 2003 and under pressure from the international community the Government of Liberia agreed to come to the negotiation table. Peace talks held under the auspices of ECOWAS (Economic Community of West African States, a regional grouping of 15 states to promote economic integration) and financed by the European Union have led to the deployment of an international peacekeeping force, the departure of Charles Taylor and the signing of a Comprehensive Peace Agreement (CPA) on 18 August 2003. A National Transitional Government of Liberia (NTGL), provided for in the peace agreement, took office on 14 October 2003.

The CPA identifies and makes provision for a number of areas of concern that need to be addressed by the NTGL, all of which are intended to contribute to the restoration of peace, security and good governance in Liberia. Key amongst these areas is an immediate requirement for comprehensive understanding and capture of funds flowing from priority revenue earning sectors of the economy and prudent and transparent action in the way in which these funds are subsequently managed. This will allow the NTGL, together with its international development partners, to identify areas where improvements in financial and budgetary management are required and where these can be subsequently supported by the international community. The implementation of these systems and financial audits, as well as their results, are also of key importance in demonstrating the will and commitment of the NTGL to issues of good governance and financial accountability – a key area in which the NTGL must deliver during its two year mandate. In Liberia, common practice has been to delay or even to undermine implementation of

such audit exercises by Government – so the simple fact that these audits proceed, will be a substantial achievement in itself.

Following an International Monetary Fund Needs Assessment Mission in December 2003, the NTGL and the IMF reached agreement that one critical set of actions that should be undertaken as a priority and as a matter of urgency in the coming months that would strengthen the co-operation between the IMF and the NTGL would be *“independent audits of the Bureau of Maritime Affairs, the Forestry Development Authority and the Liberian Petroleum Refining Company should be taken promptly.”* Subsequently the Chairman of the NTGL wrote to the Office of the European Commission on 23<sup>rd</sup> December 2003 to request that the European Commission fund the costs of auditing these state owned enterprises (Bureau of Maritime Affairs, Forestry Development Agency, Liberian Petroleum Refining Company, National Ports Authority and Robertsfield International Airport), but also to request that the Central Bank of Liberia be added to the lists of institutions to be audited. Since then, numerous meetings and discussions have taken place between the EC, IMF, NTGL, World Bank and the US Treasury in order to ensure that the Terms of Reference and scope of work for all of the audits are as comprehensive and inclusive as possible. First drafts of the ToR for the State Owned Enterprises (SOE's) were provided by the NTGL General Auditing Office - these have been subsequently modified during the discussions referred to above. The involvement of the major international financial institutions in the process of drawing up the ToR is particularly important given the fact that much of the future proposed technical assistance and support to the economic management and public sector finance management activities, will be to a large degree heavily dependent upon the implementation and results of these audits.

These key SOE's and revenue generating agencies are identified as:

- The Bureau of Maritime Affairs (BMA) (responsible for the management of all revenues generated from Liberia's shipping fleet and from those flying the registered under the Liberian Shipping Register);
- The Liberian Petroleum Refining Company (LPRC) (responsible for the importation, distribution, supply and storage of all petroleum products for the Liberian market) ;
- The Forestry Development Authority (FDA) (responsible for the management, administration and supervision of all Liberia's forests and forest resources;
- The National Port Authority (NPA) ( responsible for the management of Liberia's Ports) and
- Roberts International Airport (RIA) (responsible for the management of Liberia International Airport).

*At the time of this tender document preparation, the Office of the Chairman is in the process of soliciting written approval from the Boards of all of these SOE's for the European Commission to undertake these systems and financial audits.*

A review of the table below, shows the importance of these SOEs' in the provision of revenue to the national budget;

**Revenue Sources: July 2003 to January 2004**

Source	Total Revenue Collect (US \$)	Percentage of Total Revenue
Customs (NPA, RIA, Border Posts)	8,967,601.48	37%
Petroleum (LPRC)	1,610,090.33	7%
Forestry Development Authority	770,750.00	3%
Direct ( Income Tax)	3,391,838.90	14%
Maritime (BMA and LISCR)	7,501,286.48	31%
Indirect (Misc. Taxes)	2,152,289.33	9%
Total	24,393,856.52	100%

Source: Ministry of Finance

*Note: a/ It is estimated (verbal estimates from the MoF) that the revenues generated from Customs (NPA, RIA) and Maritime (BMA) could be in the region of 15% to 20% higher, if more transparent and accountable systems (financial and organisational) are put in place;*

*Note b/ The revenues for the Forestry Development Authority are extremely low, as Liberian remains under UN Sanctions for the Forest Sector.*

**A management study and financial review of the Forestry Development Authority is being launched as a separate procedure – this tender therefore relates to systems and financial audits of the Bureau of Maritime Affairs, National Ports Authority, Robertsfield International Airport and the Liberia Petroleum Refining Company.**

**2. Objectives of the Technical Assistance**

**2.1 Objectives**

The objectives of the technical assistance will be to undertake a detailed and transparent systems and financial audits of these selected SOEs in order to ascertain that their functions and revenue generating activities (including correct remittances to the national budget) are being conducted in accordance with internationally accepted standard and practices and are implemented in the interests of the people of Liberia. This will assist in ensuring that: 1) Government revenues are increased, 2) that there is improved financial accountability in these SOE's and 3) that there are improved management and organisation systems in place within these SOE's thereby allowing them to function more effectively and efficiently.

**2.2 Audit Conclusions**

There are two main sets of conclusions which will result from these audits. Firstly, the audits will highlight the way in which these SOE's are operating and conducting their affairs and whether the organisational structure and financial systems in place are appropriate and functioning correctly. Recommendations may then be drawn up from this analysis which may mean that the these SOE's and the NTGL need to undertake some form of structural or systems reforms.

Secondly, it is expected that the audits, especially from the systems and organisational point of view, will provide increased level of understanding in the way in which these SOE's are managed and operated – which will hopefully induce a culture of transparency, hitherto lacking in these bodies. It may well be that selected SOE's could benefit from selected institutional technical assistance from the international donor community as a result of these audits.

### **3. Issues to be addressed**

#### **3.1 Description of Work**

The technical assistance required to undertake this assignment is divided into three Lots:

- Lot 1 Bureau of Maritime Affairs
- Lot 2 National Port Authority and Robertsfield International Airport
- Lot 3 Liberia Petroleum Refining Company

These Lots are broken down on the above basis reflecting their entries into the government's budget ledger as illustrated above.

The Consultants may bid for all or selected combinations of Lots.

#### **3.2 Lots 1, 2 and 3: Scope of Work/Terms of Reference – Bureau of Maritime Affairs (Lot 1), National Port Authority and Robertsfield International Airport (Lot 2) and Liberia Petroleum Refining Company (Lot 3)**

The Terms of Reference are as follows:

##### **Systems Audit**

- Review the existing legislation creating these entities, determining their clarity, relevance and sufficiency;
- Review the organisational structure of each entity, determining its suitability and adequacy, including management roles and responsibilities;
- Assess the human resource capital and determine the adequacy of the quantity and quality of key personnel categories, with particular linkage to skills and competencies;
- Identify and assess external linkages and inter agency consultation and co-ordination in relation to the mechanisms and processes employed, particularly in setting and adhering to national fiscal guidelines and priorities;
- Assess and determine the adequacy of the planning mechanism within each entity, especially as it relates to setting institutional goals, developing workplans, priority setting and mobilisation and allocation of resources;
- Assess the internal sub systems (communications, logistics, maintenance, procurement etc) and assess their efficiency and effectiveness;
- Assess and determine the quality of the working environment (offices, logistics, utilities, power, training etc) and make recommendations for change;
- Review the Accounting and Management Controls of each entity to ensure proper adherence to generally accepted accounting and management principles and the adequacy of these Controls;

## **Financial Audit**

- Identification and verification of the main financial flows and opening and closing balances of these institutions over recent accounting periods – either the financial or the calendar year. Possible periods would be 2000 and 2001 or financial years 2000/01 or 2001/02. These audits would be taken independently of the entities in question and would seek to show such line items as:
- Gross revenue flow – summarised by each major revenue source
- Current expenditure itemised by each major category, including wages and salaries (supplemented by details on employment and structure)
- Purchased goods process (allocated by major activity)
- Transfers made
- Interest (allocated by major activity)
- Capital spending ( itemised by major item)
- Profit/loss overall balance and current balance
- Remitted profits (profits transferred to government or the public or private agency with dates and amounts)
- Borrowing (itemised by sources)
- Net change in financial assets
- Composition of net financial balance (itemised by major financial assets and liabilities at the beginning and end of each period)
- An assessment of the individual agencies arrears
- An indication of the legal basis for the various activities and transfers of the entities being examined and highlight any concerns and problems experienced in identifying or validating the financial flows or legal basis.

## **4. Experts Profile**

### **4.1 General Description**

The team of experts as foreseen by the Commission will comprise a combination of European and African (preferably West African) accountants, who have worked together before on similar organisational and financial audits.

It is envisaged that for each Lot, the assignment, an interdisciplinary team of up to three Consultants could be involved (although the tenderer is free to propose their own team composition taking into account the ToR). The combination of skills should include auditing, financial accounting, legal and regulatory management in the relevant technical areas covered by each Lot. All the Consultants are expected to work on site.

Consultants may bid for between one and all three of the Lots. Should a Consultant bid for more than one Lot, the proposed team (workplan, organigramme and methodology) would need to clearly identify and set out how the assignment would be implemented). In addition, the financial savings if more than one Lot is bid for, needs to be clearly stated.

In each team, one of the team should be nominated as Team Leader and should ideally be a Category 1 consultant. Individuals within the team should have direct experience of similar institutions and be aware of the way in which such entities are managed and operated.

The experts should be currently employed in the profession.

The Auditor on behalf of the Consultant who signs the report must be a member of a recognised professional institute. His membership will be proven by an attestation<sup>1</sup> from the relevant professional institute or by any other form of registration of the Auditor as member of that institute. A university degree in accounting/audit/finance is not acceptable.

The experts proposed should have no absolutely no connection (personal or professional) with any of the institutions to be covered by this assignment – nor should they have worked before on previous audits these institutions to be covered. Any possible conflict of interest should be immediately declared.

Depending on the Lot for which the Consultant is bidding, for each of the experts proposed, audit experience in the following sectors is desirable:

- Audit experience of similar state owned revenue generating agencies, parastatals, customs and excise agencies, ports and shipping registers and other public sector finance institutions ;
- EU or other International Donor Programmes. Exposure to international aid programmes, specifically EDF procedures would be an advantage;
- Knowledge of the International Monetary Fund and World Bank public-finance management approaches would be a considerable advantage;
- Audit Experience in Africa, preferably West Africa is essential.

Knowledge of the following languages is mandatory: English - fluency and excellent writing skills

A description of the Expert Profiles/Categories is given in Annex IV of the Draft Contract – Key Experts/Expert Profiles.

## **5. Execution and Timing of the Audit**

### **5.1 Time Schedule**

It is expected that the time schedule for each Lot will be as follows:

**Lot 1 BMA:** 60 days (45 days of fieldwork and 20 days allocated for report writing -inception report, draft report, management letter, final report).

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<sup>1</sup> To be annexed to the CV of the expert concerned together with the offer.

**Lot 2** NPA and RIA: 45 days (30 days of fieldwork and 15 days allocated for report writing - inception report, draft report, management letter, final report).

**Lot 3** LPRC: 60 days (40 days of fieldwork and 20 days allocated for report writing -inception report, draft report, management letter, final report).

The final methodology and the agreed timing schedule should be proposed by the Consultants retained.

It is assumed by the Commission that the assignment for each Lot could be organised into two phases – a systems organisational audit and financial assessment, based on experience and available general information, followed by a financial audit whose depth and extend would then depend upon available documentation and the necessary adaptation should be proposed by the Consultants(increase/reduction of time/experts required in case of absence of available information) and approved by the Audit Task Manager. The Consultant should take into account this approach when designing the methodology, but is not bound to adhere to this approach if the Consultant feels that another approach is more suitable. The rationale for such an approach would need to be carefully explained.

In drawing up the timetable for the assignment, the Consultant may proposed that the Team Leader arrive in country in advance of the rest of the team in order to undertake initial preparatory and reconnaissance activities.

The Commission requires the assignment to commence as soon as possible after the signature of the contract. The assignment should commence at the latest within 15 calendar days after the signature of the contract.

## **5.2. Place of Performance**

The assignment will take place in Monrovia, Liberia. *Any field trips out of Monrovia will have to be approved in writing from the Resident Adviser of the Office of the European Commission in Liberia, and will be subject to the prevailing security situation in the respective areas.*

It may be necessary for members of the team to undertake missions to Abidjan, Cote D'Ivoire during the course of the assignment. The reason for this is that, should the Consultants feel that they need to discuss or interview certain individuals (currently or previously employed by any of the SOE's) in a neutral or uncompromising environment, this can be done this can be done in an neutral place or setting conducive to these discussions.

## **5.3 Security**

The Commission has maintained an expatriate presence in Monrovia since 1994. Up to and including the last round of fighting in 2003, no serious security incidents affecting these expatriates have been reported during this period. Personal and household security in particular in Monrovia was considered to be adequate.

Given the sensitive nature of the assignment it has been agreed and confirmed in writing between the Resident Adviser of the European Commission in Liberia and the United Nations Special Representative of the Secretary General that, should it be considered necessary, a close protection team of UN PeaceKeepers will be provided on a 24 hour a day/7 day a week basis for the Consultants. This close protection team will be responsible for the individual and collective security of all team members involved in the assignment.

#### **5.4 Preparatory Meeting**

As part of the start up, an opening meeting will be organised between the Head of Delegation in Cote d'Ivoire, acting on behalf of the National Authorising Officer, the Resident Adviser of the European Commission in Monrovia, the Consultants and any other individuals considered relevant to the discussions. It is foreseen that the meeting will be held in Abidjan prior to the team's arrival in Monrovia. Further discussions and briefings on the full nature and scope of the audit will be discussed at this meeting. Should the Consultants have conducted a site visit in order to prepare their proposal, information gathered during that visit can be updated or supplemented in order to ensure that all available documentation is at hand. The Office of the European Commission in Liberia can assist in collection of this information. The Consultants may request the European Commission to assist them in the collection on this data prior to the preparatory meeting.

It should be appreciated that information such as agency organigrammes, manuals of procedures, availability of previous audit documentation will be difficult to obtain, as in many instances such information is either "*missing*" or unavailable (destroyed by recent bouts of looting and fighting). Given the importance placed upon these audits by the NTGL and the international community, every effort will be made by the European Commission and the Audit Task Manager to sources this information to enable the Consultants to undertake their assignments effectively and efficiently.

Upon arrival in Monrovia, a meeting with the various SOE's will also be organised in order to inform all the parties concerned of the work to be undertaken, to outline the timetable of the audit and to make practical arrangements. This will be organised by the Office of the European Commission in Liberia. A meeting may also be organised with the General Auditing Office (GAO) and the Auditor General. The Auditor General can be briefed on the methodology and processes for conducting the audits and the support of the GAO can be solicited if required.

During the mission further information and documents can be made available if necessary. Currently the following documents are available in the Office of the European Commission in Liberia:

- Comprehensive Peace Agreement - Accra Accord – August 2003
- Post Conflict Rehabilitation and Capacity Building Programme – Financing Conditions No. 9063/LBR
- Government of Liberia/UN Joint Needs assessment
- International Monetary Fund – Needs Assessment December 2003
- Acts and Mandates for the BMA, NPA, LPRC and FDA.

- NTGL Executive Order No 2.
- Liberian Codes Volumes I to IV

### **5.5. Preparation of the audit programme**

The Consultants will prepare an audit programme and submit it to the Audit Task Manager. For this purpose, the Consultants will use the information provided by the Commission as well as the information provided in the introductory meetings with the relevant institutions. The audit programme will detail all the procedures and control steps to be employed.

Before being submitted to the Audit Task Manager, for information purposes only, the programme will be reviewed and approved by the Consultant team's audit partner (who should be at a category 1 level) responsible for this audit. The Audit Task Manager will comment and approve the audit programme. The Consultants will keep all documented evidence of the review of the audit programme and the approval of the audit partner.

### **5.6. Working documents**

The Consultants must keep up to date detailed working papers in order to allow for a thorough understanding of the audit tasks undertaken and the results and the conclusions drawn. The documents must be kept for a period of 5 years after the final payment of the contract form in such a way as to allow them to be consulted by the Commission in the offices of the Consultant.

## **5.7 Reporting**

### **5.7.1 The Aide mémoire/Inception report**

For all Lots, within two weeks of start up the Consultants will produce an aide memoire/inception report which will outline the proposed work programme, progress made and highlight any immediate issues or concerns that may affect the successful conclusion of the assignment. This report will also contain all recommendations made by the Consultants as well as the SOE's points of view. This report will be used as a key document during the closing meeting and for writing up the audit report. This report will be submitted to the Audit Task Manager (Resident Adviser Office of the European Commission in Liberia), with a copy to the Head of Delegation of The European Commission in Cote D'Ivoire.

### **5.7.2 Draft Report**

At the end of the assignment in country, for each Lot a draft report (5 copies of the draft report in both hard and electronic format) will be prepared and submitted to the Audit Task Manager (with a copy to the Head of Delegation in Abidjan). This report will include both a detailed description of both the organisational and financial characteristics of the institution under review. The report will contain the standard accounting formats and reporting procedures as used for normal audit, balance sheet and cashflow reporting. The Consultants will pass through Abidjan for a debriefing. The Commission will then have working 30 days in order to inform the Consultants of its observations and comments. The Audit Task Manager will then decide how best to share this report with the NTGL and the various institutions and with other international agencies.

### **5.7.2 The Final Report**

The purpose of the final report is to describe the mission and its objectives as well as to detail the work carried out. The report should include a conclusion as well as a list or tables of all audit

findings. An indicative format for reporting is provided below in section B.1 and should be modified by the Consultant for each Lot.

All reports should be presented in English.

The reports will present the facts and evaluate them in a clear and objective manner and will be limited to the key issues. The report will be well structured and easy to follow. Particular attention will be paid to the results of the systems and financial audits, which should present the findings, their risks, financial impact, the Consultant's recommendations, the NTGL/SOE's comments and the reference numbers of the working papers. These findings will be summarised in a list or a table designed to facilitate the follow-up by the Commission, individual institution, NTGL and other international agencies (IMF, US Treasury, World Bank).

The Consultant should present a final report (15 copies, one loose leaf version and one electronic version) within 10 working days of receipt of the Commission's comments and observations. The person delegated to certify accounts in the country where the Consultant's Head office is based should sign the reports.

The reports should be sent to the Audit Task Manager (who will be responsible for distributing the reports to the NTGL, specific institution and the IMF).

## **5.8 Representation Letter**

The representation letter is a document in which the respective institutions will be requested to confirm in writing all statements made to the Consultants during the course of the audit, including his written comments on the audit findings discussed during the closing meeting and that all the relevant supporting documentation was made available to the Consultants. The purpose of this letter is to document the responsibility of the institution with regard to the information presented during the audit. The Consultants will prepare and present this letter, the content of which will depend on the scope of the audit and the role of the concerned parties.

## **5.9 Closing Meeting**

At the end of the fieldwork, several closing meetings will be organised. The participants at this meeting will be designated in discussion with the Audit Task Manager according to the findings of the audits. The presence of a representative of the audited agency and the NTGL, as well as the Consultants is mandatory. Other participants may also be invited. Participants from EC Headquarters will be invited to attend.

The purpose of this closing meeting is to:

- Review all findings in order to confirm the understanding and interpretation of these findings and to detail and clarify all facts;
- Obtain the approval and the comments of the individual institutions;
- Inform all parties concerned of the procedures for the finalisation of the audit report and the follow-up of the results;
- Outline the implementation of the recommendations of the audit;
- Discuss and agree the procedure for "going public" with the results of the audits.

### **5.10 Acceptance of final reports.**

Once the final report is prepared, the Audit Task Manager sends it to the Institution and the NTGL, who are then invited to give their final viewpoint within a period of 30 calendar days. In addition copies will be sent to the IMF for their comments and inputs. Only after the expiration of that delay and examination of the Consultant's reply on the viewpoint expressed by the institution and NTGL, the Audit Task Manager will accept or reject the final report.

### **5.11 Follow-up and contradictory procedure with the SOE**

After the final report has been accepted by the Audit Task Manager, the Commission will then establish the contradictory procedure with the respective institutions and the NTGL before it can implement measures resulting from observations made in the audit report. This will also need to be done in consultation with the IMF. This implies that the SOE and the NTGL are not requested any longer to comment on the report but only on the action the Commission and the IMF propose.

The Commission has the option of being further assisted by the Consultant's Auditor in executing this task. However, this particular task is not an integral part of the contract with the Auditor. In addition some of the recommendations, particularly in the area of institutional support and strengthening can be addressed through the EC's Institutional Support Programme and by capacity building efforts by other international donors.

### **5.12 The Complementary Letter**

The objective of the complementary letter is to regroup the objective comments of the Consultants on subject matters of interest to the Commission and the IMF.

The letter will contain the Consultants' opinion on various subjects such as:

- The role of the SOE/institution within the political and constitutional framework of the partner country
- The impact of the SOE/institution with regard to its objectives
- Unwillingness to co-operate by the SOE/institution;
- The weaknesses of the internal systems of the SOE/institution and the NTGL and the recommendations for their improvement (for example badly written contractual clauses, lack of clarity of instructions, authorisations given by unauthorised persons).
- Or all other aspects likely to be of interest to the Commission.

This letter will be independent of the individual reports and will only be made available in order to inform the Commission of the issues outlined above for that particular audit mission. The letter will be confidential and will be sent to the Audit Task Manager. The Audit Task Manager will decide who should be entitled to receive copies of this letter. One Complementary letter for each institution should be prepared.

### **5.13. Miscellaneous**

In the case where the Consultants decide that particular findings should immediately be disclosed to the Commission, it will be the latter that will make the decision as to whether and when to inform the national authorities and the respective institution.

The Consultants should inform the Commission immediately of all attempts by the beneficiary or any other party to limit the scope of the audit, any unwillingness to co-operate, and any suspicion of fraud or irregularity.

The Commission reserves the right to request at any time and with reason, the replacement of one or more of the experts. Unless the error is attributable to the expert, the Commission will accept all supplementary costs which this may entail and will adapt the schedule and time limits accordingly. The Commission remains the only judge of the reasons cited for the replacement.

#### **5.14 Administration**

The experts should have computers with an Internet connection in order to allow for the exchange of electronic mail.

The justifying documents presented by the Consultants for the audit mission (namely invoices, air ticket stubs, time sheet etc.) must be kept for a period of 5 years after the final payment linked to the order form and must be made available upon request of the Commission. Lump sum expenditure claims must be accompanied by original supporting documentation (receipts, invoices etc).

The Delegation of the European Commission in Cote D'Ivoire and the Office of the European Commission in Liberia should ensure that the Consultant's are allowed to carry out their work in the best possible conditions. These conditions should include the availability of a room/office, access to office equipment such as a photocopier, fax machine, and telephone line to the extent to which this is possible. The Office of the European Commission in Monrovia will also assist the Consultants with regard to contacting other relevant organisations.

These specific Terms of Reference are written for the use of the Consultants and the Commission. If the SOE/institution or the NTGL requests to disclose them, it is up to the Commission (Office of the European Commission in Liberia) to take the decision to hand over a copy.