



**Ministry of Finance and Treasury**  
Republic of Maldives

**Maldives: Public Financial Management Systems Strengthening Project**

**Terms of Reference**

**For**

**Consultancy for: (I) carrying out Business Process Review for Budget Execution, Accounting and Reporting and associated update of Public Financial Regulations;  
(II) Strengthening Public Sector Internal Audit, IT/Computer Assisted Audit**

*[RFP No: PSSP/1.1/1.3/2.2/C/01]*

**Project Number: TES/2015/C-05**

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Tender Evaluation Section  
Public Procurement Division  
Ministry of Finance and Treasury  
Republic of Maldives



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## **a. Summary**

The government of Maldives plans to acquire the services of a consulting firm to carry out business process review of budget execution, accounting and reporting systems, and based on these reviews, compile an accounting manual and a chart of accounts of the central government. In addition, the firm will also review and update the existing regulations, issued from time to time, to contextualize better practices and compile public financial regulations.

The objectives are to improve fiscal controls and enhance transparency.

Since the formal approval of the revised public finance regulation may not be finished when the draft manual is ready, an iterative approach is expected. This would involve a second review of this manual in a few areas where it would need to align with the approved recommendations of the regulation review.

These services will be funded through a World Bank financed 'Public Financial Management Systems Strengthening Project (PFMSP). The consultants will be hired by and report to the MoFT. The project has been approved by the Board of the World Bank and has been effective since 2 October 2014.

This ToR provides an outline of the expectations from the selected firm. The Scope of Works under this ToR and the selection criteria will be further developed and will be made part of the Request for Proposal (RfP) document which will be subsequently issued to the shortlisted firms. Please also note that the consultants will be required to provide their project plan along with the technical proposal in response to the RfP. It is expected that the assignment will be completed within 4 months.

## **b. Background**

Maldives is a middle-income, island country, consisting of more than 1200 islands, from which 200 are inhabited with a total population of around 350,000.

The overall public financial management system has weaknesses in several areas. Key weaknesses, as identified through a recent assessment (Maldives Rapid PFM Assessment) include various inconsistencies among the growing number of inter-connected public finance legislative initiatives, and skill gaps to manage the SAP system being used for budget execution management since 2009. In addition, a recent PEFA report has highlighted, among others, key fiscal control weaknesses, including: expenditure payment arrears, lack of predictability in the availability of funds for commitment of expenditures (restrictive disbursement controls in place), inadequate recording and management of cash balances, debt and guarantees, weak payroll controls partly due to lack of integration with establishment registers, weak internal controls for non-salary expenditure (regulations need updating), and backlog of accounts reconciliation.

The FC (Financial Controller) is responsible for budget execution, accounting and cash management, while the head of Fiscal Affairs Division is responsible for budgeting. The budget execution processes are heavily centralized in Male, where more than 85% of the budget is executed through 14 ministries, providing services through around 400 plus spending units. The accounting function is decentralized at the ministry level: the accounting staff of the ministries raises and approves the procurement and payment related documents, while the final payment is centralized at the Treasury and Public Accounts Division (TPAD) of the MoFT (Ministry of Finance and Treasury) working under FC. The accounting and HR staff of the ministries and TPAD are using SAP ECC 7 for accounting and payroll since 2009. The SAP system is running a payroll



of around 14000 plus employees through a centralized payroll processing arrangement. There is a core team of around 20 SAP resource persons at TPAD managing the SAP environment. The system is rolled out at around 14 ministry HQs and the TPAD MoFT in Male.

The system supports the existing accounting and reporting procedures of the government. However, these procedures need to be reviewed to strengthen controls. The reporting formats have been reviewed and designed in line with IPSAS cash reporting requirements. These reviews will have an impact on the chart of accounts, which needs to be reviewed and designed as well.

Besides, the government has been issuing regulations from time to time. However, these have not been compiled and updated into a concise financial regulations. The consultant will need to update these regulations and compile them into a public financial regulations book.

## **c. Terms of Reference**

### **I. Business Process Review**

The consultants will be responsible for the following deliverables under the business process review:

- a. The inception report
- b. A handbook of accounting principles
- c. Business Process Review
- d. An Accounting Manual and Chart of Accounts
- e. Public Financial Regulations
- f. Staffing Review
- g. Standard Operating Procedures and other Guidance Materials
- h. Migration Plan for Accrual Based Accounting
- i. Financial Statement Formats based on Accrual Accounting
- j. Closing report

The expanded description along with key activities associated with these deliverables is described below:

#### **a) An Inception Report:**

The inception report will highlight, among others, the detailed scope, the methodology to accomplish the deliverables, identified key stakeholders, project plan and roles and responsibilities matrix incorporating expectations from the client/counterpart government team.

#### **b) A handbook on accounting principles**

The consultant will prepare a small handbook on key accounting principles to be adhered to during the design of the detailed business processes. These principles will highlight key concepts in areas like definition of entity for consolidation purposes suited to Maldives context, definition of



consolidated fund and public account, commitment controls, financial assets, liabilities, single treasury account, various dimensions of the chart of accounts, accounting period, etc. The consultant will make presentation to the various technical groups, including sector ministry staff and the steering committee on the key points of these principles to facilitate broader awareness, consensus building and policy decisions.

**c) Business process design and chart of accounts:**

The consultants will partner with the government's proposed working group to analyse as-is business processes of budgeting, accounting and reporting and suggest improvements through a to-be process design in line with better practices for central accounting division, line ministries/office and local councils. During this exercise, the consultants will explicitly identify key control weaknesses in the existing processes and how they will be addressed through revised processes. The key business processes, among others, would be:

- i. Commitment, Payments and cash management
- ii. Revenues (Tax and non-tax revenue, interface design with Customs and MIRA systems)
- iii. Fiscal transfer procedures to the island based agencies, foreign embassies and their accounting and reporting
- iv. General Ledger and Reporting
- v. Electronic Funds Transfer (EFT)
- vi. Bank reconciliation- detailed procedures to facilitate electronic bank reconciliation
- vii. Inter-entity transactions/adjustments including fund transfers/capital contribution to SOEs
- viii. Financial Assets and fixed assets
- ix. Liabilities, including debt (t-bills/bonds/Islamic t-bills) recording
- x. Petty cash/imprest/advance/travel incidental payments
- xi. Payments from the four Funds (Consolidated Revenue Fund, Loans and Capital Works Fund, Trust Fund and Advance Fund)
- xii. Project accounting, including donor funded projects and use of country systems
- xiii. Payroll and associated controls, including information flows with GL, leave and absence management systems, establishment registers, pension system, employee loans and advances, etc

These reviews will be closely aligned to the standard SAP functionality to minimize customizations. The BPR will be reflected into the accounting manual.

**d) Accounting Manual and Chart of Accounts**



The consultant will update the current accounting procedures to reflect the changes in the redesigned business processes. The manual will reflect the BPR as mentioned above and provide the definitions of each GL code and the accounting policies and procedures. It will have special annexes on reporting formats.

The consultant will also prepare a detailed responsibility matrix and procedure to ensure the manual is updated continually to reflect the latest government instructions on policy and process issues impacting the manual.

The consultants will review the structure of the chart of accounts, identify the weaknesses and suggest additional elements/dimensions of chart of accounts to meet the reporting requirements as well as program based budgeting. The consultant will also compile detailed chart of accounts, with all the codes, to reflect existing and future requirements in line with IPSAS, GFS and government's management reporting requirements.

The consultants will also carry-out workshops with the Financial Controller, departments of MoFT and line ministries/office users in batches on the improved concepts introduced through the revised manual. The consultants will also support the government select master trainers from the line ministries/offices and the TPAD and train them for advanced training on the manual and the chart of accounts.

**e) Financial Regulations**

The consultants will review the financial regulations issued from time to time and align them with better practices in the context of Maldives. Detailed interaction with the MoFT will be needed to update these regulations. The updated regulations will be compiled into Public Financial Regulations (PFR 2015).

**f) Staffing Review**

The consultant will assess the existing organizational structure of central accounting division, budget/finance/procurement section of 3 line ministries, 3 independent institutions, and 1 city council, 1 atoll council, 1 island council and the position and skills required to carry out the process improvements above.

**g) Preparation of Standard Operating Procedures and other Guidance Materials**

Review the existing operating processes and prepare standard operating procedures and other guidance materials for the central accounting division, budget/finance/procurement section of 3 line ministries, 3 independent institutions, and 1 city council, 1 atoll council, 1 island council.

**h) Migration Plan for Accrual Based Accounting**

Prepare a migration plan for accrual accounting.

**i) Financial Statement Formats based on Accrual Accounting**

Draft financial statement formats for state and line ministries/offices and local councils.

**II. Strengthening Public Sector Internal Audit**



The consultant will provide support to the Internal Audit and Investigation Division (IAID) of the Ministry of Finance and Treasury by reviewing its existing internal audit manual, public finance regulations & procedures to apply specific audit methodologies based on the public accounting environment of Maldives. The specific audit areas are; Audit of Public Procurement, Audit of Public Revenue & Audit of Payroll. Based on the specific audit areas, the consultant will review IAID's Strategic Management Plan, assessing the application of its Internal Audit Manual, and preparing for the activation and roll-out of the internal audit module (related to specific audit areas) in the Public Accounting System. He or she will also conduct training sessions, provide on-the-job-training, and assist in internal audits as appropriate.

The consultants will be responsible for the following deliverables under strengthening public sector internal audit:

**a. Inception Report**

The Specialist will provide an inception report no later than the 3rd week after the start of the inception mission.

**b. Draft Final Report**

The Specialist will also provide a draft final report that will be circulated to the project management team and the Government for comments. Taking those comments into consideration, the Specialist will prepare and submit a final report.

**c. Final Report**

The final report should include information on the following areas:

- i. Policies, mandate, and other standards/plans/recording system
- ii. Outsourcing systems
- iii. internal audit methodology
- iv. Model central audit department functions
- v. Framework of periodic and ad hoc internal audit reports
- vi. National framework of internal audit with hierarchies and reporting protocols
- vii. Mechanism for monitoring and appraising performance of internal audit staff
- viii. Terms of reference and work plan of national/contractual staff
- ix. Training programs
- x. Update Internal Audit Manual, with the necessary work sheets, guidelines, handbooks and templates.
- xi. Update Strategic Management Plan for Developing Internal Audit
- xii. IT Computer Assisted audit:
  - training programs for audit and other concerned staff on performing IT audit and use of the relevant audit software;
  - IT audit (CAAT) part of the internal audit manual;
  - monitoring compliance on the Government's MIS;
  - evaluation report on controls over workstations, LAN, database administration, and systems development relating to revenue/expenditure audit;
  - comprehensive master plan for the improvement IT audit programming that is integrated and interfaced with the PSA project;
  - other tasks requested by the Government



#### **d. Detailed Tasks:**

Major responsibilities include, although are not limited to the following activities:

- i. Internal Audit Methodology and Institutional Arrangements
  - a) Review the financial and accounting environment, related to the specific audit areas.
  - b) Review the existing internal audit manual of IAID and note required changes (related to the specific audit areas).
  - c) Develop detailed internal audit guides, checklists, and questionnaires to serve as practical guidance to internal auditors in applying the concepts contained in the internal audit manual (for the specific audit areas).
  - d) Work and coordinate with other consultants who review the public accounting process & rely on the reports generated from the business process reviews.
  - e) Identify training requirements for the internal audit staffs on specific audit areas.
  - f) The internal audit lead consultant will work closely with and report to the Head of Internal Audit;
  - g) Assist the Head of Internal Audit with formalizing the links between the MOFT's Internal Audit and the internal audit activities carried out at other agencies (related to specific audit areas),
  - h) Review internal control over debt management and formulate an audit process to assess the division annually
- ii. Training
  - a) Commence training internal audit staffs based on the developed audit guides for specific audit areas. Training provided shall be more of practical nature than theoretical. However, these trainings shall be supplemented with necessary theory classes, training material, etc.;
  - b) Provide formal training sessions and on-the-job (OTJ) training, and practically conduct and supervise the audits with internal audit staff; and
  - c) Train internal audit staff on public sector risk management, forensic auditing, fraud detection, and fraud prevention. (for the specific audit areas)
  - d) Provide training on using the methodology for specific audit areas and Internal Audit Manual as a basis for auditing by the following ministries and SOE's, with the supervision of the Ministry of Finance and Treasury.
    - Ministry of Health (Procurement Audit)
    - Ministry of Education (Payroll Audit)
    - Maldives Custom Services (Revenue Audit)





### iii. IT/Computer Assisted Audit

#### a. Training

1. Training internal audit staff on performing IT Audit, including CAAT, using audit software such as: interrogation software, which accesses the client's data files; comparison programs that compare versions of a program; interactive software for interrogation of on-line systems; and resident code software to review transactions as they are processed.
  2. Training staff on how to utilize the embedded audit facilities and report writing tools in financial management software, including that of the centralized accounting package under PAS and other financial management software used by Government offices that may be interfaced or not to the Central
  3. PAS. Training given shall be of practical nature and shall be supplemented with as necessary with theory classes, multimedia materials, etc.
  4. Coordinate with the project management personals and head of IAID to design a relevant training program for the concerned staff.
- b. Reviewing controls over workstations, Local Area Networks, database administration, systems development related to revenue/expenditure audit, and preparing an evaluation report based on identification of weaknesses, etc.
  - c. Monitoring compliance with Government's Management Information System (MIS) and related policies and processes as well as compliance with Government legislation and any systems accreditation criteria.
  - d. Preparing a comprehensive master plan to improve financial accountability through a computerized system of accounting and improvement in audit techniques and computer controls, etc.
  - e. Developing the IT Audit part of the Internal Audit Manual in consultation with IAID, which will provide instructions on how and when to make changes to the manual.
  - f. Assist (technical guidance) procurement of software to be used for the CAAT works in IAID.

## 4. Qualification and experience

- a. The firm must have a minimum of ten (10) years of accounting and budgeting consulting experience, including public sector accounting and budgeting experience, of which experience of at least 1 project with the government of a developing country is desirable;



**b. Team:**

- i. Team leader must have a demonstrated minimum of ten (10) years of overall experience, including experience in a supervisory or managerial capacity on similar assignments;
- ii. 3-4 professional qualified team members with CPA, ACCA, CIMA, CA, CIPFA or equivalent qualifications and graduate degrees in technology computer science, preferred; These experts must have more than five (5) years of post-qualification experience; recognized expertise on PFM (Government finances, treasuries, accounting, etc) IPSAS, SAP and other Accounting Packages and internal audit would be specially preferred in the team composition. They will provide best practice inputs in to-be process design. The experts engaged shall have international experience in providing recommendations/reforming the Government financial management and experience in implementation of IT systems to organizations such as MoFTs in other countries.
- iii. Maximum 5-6 consultants during peak time, including the team leader, expected to work to complete the assignment not later than 4 months from contract effectiveness. Following team composition is proposed; vendors can propose variation of this composition as per their methodology.
- iv. Specific experience and functions of the team are as follows:
  1. 1 consultant should have experience of the designing chart of accounts, accounting system and procedures for a large scale accounting operation in the public sector of comparable size and complexity, preferably for central government; and experience in preparing accounting manuals, review and detailed design of chart of accounts, accounting principles, formats for financial statements, and migration plan for accrual based accounting
  2. 1 consultant with system analysis experience in an IT-based environment to support process flow diagrams, BPR, staffing review and standard operating procedures and other guidance materials
  3. 1 consultant should have experience in reviewing Public Finances Regulations
  4. 1 senior consultant with minimum 10 years experience in carry out internal audit reviews using internationally accepted methodology having worked in a public sector SAP based internal audit environment who has gained at least 3 years of performance audit experience in a public sector environment and preferably will possess professional qualification in internal auditing and/or has managed a central internal audit unit at national or sub national level and experience working on Computer Assisted Auditing Techniques (CAAT), preferably in a public sector environment and have an Information and Communications Technology Audit qualification such as CISA (Certified Information Systems Auditor) or an



equivalent qualification. The consultant should also possess experience in conducting training.

5. 1 consultant with public sector procurement background with a minimum of 10 years' experience for procurement related internal audit training and pilots. The consultant should have experience either working in a procurement function, serving in procurement committees and/or experience in carrying out procurement compliance reviews.

- c. Logistic-s like office space, telephone, fax, printers will be provided by the client.
- d. Price matrix of the proposal should be submitted in following format:

	<b>Team Leader</b>	<b>Consultant 1</b> <i>(Name of consultant, total experience, rate per day in US\$)</i>	<b>Consultant 2</b>	<b>Consultant 3</b>	<b>Consultant 4</b>	<b>Total Cost</b>
<b>Phase 1</b> <i>(Name the phase as per your respective methodology)</i>		4 months  (22*4*Rate=xxx)	2 months	1 month	2 months	
<b>Phase 2</b>						
<b>Phase 3</b>						
<b>Phase 4</b>						
<b>Phase z</b>						

- e. CVs of all the proposed consultants should be submitted along with the proposal. If consultants who's CVs were submitted in the proposal are not available during actual project execution, consultant of similar experience and profile will be substituted with the prior permission of the project manager of the client. Reference letters from the past and/or current employers should be submitted along with the CVs.
- f. The consultant team leader will report to the Financial Controller or her designated officer.



## **5. Evaluation Criteria:**

Evaluation will be based on relevant overall experience with key aspects public sector accounting experience, experience of working in developing country like Maldives, etc; methodology and approach, relevant experience of the team, 2 reference checks and price.

It will be a lump-sum contract. Payment will be deliverable based, to be agreed during contract negotiations.

## **6. Reporting Requirements:**

The team will report to Financial Controller or her designated officer. FC will appoint a designate a team of internal expert in each business process to work with the consulting team.

The consultant should prepare an Inception Report prior to commencing the activities and the inception report should be submitted and endorsed by the Financial Controller.

Report on the evaluation of the existing system (central accounting division, line ministries/offices, local councils).

Submit Draft Final Report of the Business Process Review to the Financial Controller and submit the Final Report on endorsement of the Draft Final Report by the Financial Controller.