Section III: Schedule of Requirements

**eSourcing reference**: RFP/2019/10887

**Terms of Reference**

**Financial Audit Review of the Central Bank of Libya in Tripoli**

**and the Central Bank Branch in Beyda**

*July 2019*

**Background**

Following Prime Minister Faiez Serraj’s request to the Security Council for support on a financial audit review of the Central Bank of Libya (CBL) in Tripoli and the branch in Bayda on 10 July, the Security Council issued a statement on 19 July mandating the United Nations Support Mission in Libya (UNSMIL) to provide assistance. On 27 August, the SRSG, Dr. Ghassan Salamé, convened a meeting between Mr. Saddek el-Kaber, and Mr. Ali Hebri, to reach consensus on the broad parameters of the financial audit review as informed by a proposal on the administration and scope that has been submitted to the Security Council on 24 August. Dr. Ghassan Salamé again convened a meeting of the Governors Kaber and Hebri on November 7. In that successful working session, the Terms of Reference for the financial audit review were concluded. The review was requested as a means of documenting that Libya’s oil revenues have been collected in full, and to understand how Libya’s foreign exchange reserves have been managed. This was meant to build confidence that oil (and other) revenues were being allocated fairly across the country. Also, it was meant to help understand spending and revenues in the East and in the West, the basis for these, and that they are being recorded properly.

The purpose of this Request for Proposal is to select a qualified International Audit Firm to conduct the financial audit review further to these Terms of Reference.

**Overarching Objective of the Audit Review**

The overarching objective of the financial audit review of the CBL branches is to underpin the political process through facilitating the reunification of the economic and financial entities. By promoting financial accountability, transparency and building trust in the banking system, the financial audit review will create conditions conducive to the process.

*Accountability and Transparency*: The objective of the audit review is to establish accountability and transparency for the way public funds/resources are managed, firstly by the two banks and, tangentially, by other financial institutions. The audit review has the potential to rebuild trust in the banking system and in governing institutions by tackling corruption and mismanagement of public funds, including the widespread Letters of Credit (LCs), Cash against documents (CAD) transactions and loans or/and Central Bank Overdraft against budget deficit treasury bonds. Improved public financial management capacity should translate to more transparency and financial accountability, ensuring that public officials are held accountable and are responding to the needs of their constituencies. To this end, close collaboration with the National Audit Bureau and other national financial oversight institutions will be necessary.

**Scope/Framework of the Audit Review**

The financial audit will entail a broad review of the figures of the balance sheet and the financial transactions since the institutional split in September 2014, and formulation of recommendations for follow up. It will audit the financial reports of the two CBL offices and also investigate and report on the financial operations and provide assurance reports. It seeks to identify a set of harmonized data to clearly establish the nature of Libya’s monetary situation.

Since data constraints are likely to be severe, the financial audit review should include an initial phase of scoping of available data, with additional details expected in subsequent phases, based on the findings of the scoping exercise. After each phase, the financial audit review shall result in preliminary interim report which shall be submitted to both Tripoli and Albeyda to comment and respond to any queries raised during the audit. The audit review shall evaluate the responses of both sides prior to issuing the interim report officially.

If a regular (i.e., “general purpose”) audit is not deemed feasible, then the framework would involve an investigation or a forensic audit, which would not “certify” the numbers. This could be the case if the entities have not kept proper accounting records. In such circumstances, the auditors might then need to compile the data, investigate certain transactions, and report on the findings, together with appropriate qualifications on the status of the accounts.

*Audit Review of Balance Sheets and Financial Transactions*

1. *Bank Accounts/Balance Sheets*: Examine the Balance Sheets and Income & Expenditure statements to determine the assets and liabilities accrued by both banks and also, potential technical implications for re-integration of balance sheets, including:

* Public revenues from hydrocarbon sales (National Oil Corporation and Libya Foreign Bank), customs, taxes, and service fees;
* Public debt from bonds issued by the Beyda CBL and from loans granted by the Tripoli CBL.

1. *Foreign Exchange Reserves*: Review the withdrawals and inflows of foreign reserves through revenues, purchase of foreign currency, financing of the budget deficit, and other transactions since September 2014.
2. *Allocation of Foreign Exchange Revenue:* Review the basis of allocation of revenue in Foreign Exchange.
3. *Letters of Credit*: and Cash Against Documents Transactions Review the value and number of LCs and CAD's issued since September 2014, and the procedures for and transparency of their issuance.
4. *Off-balance sheet risks:* Review any off-balance sheet commitments, contingencies and guarantees. If there are any derivative products, the commitments under the forward legs would also need to be reviewed. Such commitments, which can be quite significant, are often overlooked as they do not appear on the statements themselves and may not have been disclosed elsewhere.

The final report with all findings shall be addressed with original copies to the following:

* House of Representative
* The High State Counsel
* The Presidency Counsel
* UNSMIL for information
* CBL Tripoli for information
* CBL Albeyda for information

The constitutional body shall take proper action in case of finding irregularities on the part of either or both institutions in accordance to the banking Law No.1(2005) amended by law No46(2012).

**Audit Review Deliverables:**

The text of these Terms of Reference is the formal statement of the deliverables, which it articulates in detail. For reference purposes only, it includes the following components:

* Initial scoping
* Preliminary Interim Report after each phase
* Final Report
* Final Recommendations

*Report Delivery*

The preliminary interim report will provide preliminary findings and outline the work progress/status and the report shall be forwarded to both the offices for comments and response to queries if any. The final report should consist of an Executive Summary, which could be used for publication to the general audience; the evaluation of the responses received from the two offices on the preliminary interim report, the balance sheet with an analysis and observations; an identification of areas that require further investigation and any limitations of data and scope that were encountered during the audit review; and preliminary recommendations.

*Recommendations*

Building on the findings in the financial audit review, the International Auditing Firm, with benefit of coordination of UNSMIL, will formulate a set of recommendations to enable the CBL to effectively and efficiently achieve its objectives, tasks, and functions, specifically on how to:

* Strengthen financial accountability, including the improvement of the quality and transparency of financial reporting and disclosures.
* Reconcile the balance sheets;
* Prioritize the purpose and standardize methodology for fair distribution of revenue across the country;
* Should the LC system remain, standardize the issuance of LCs and CAD's through clear criteria for eligibility and equitable distribution, and transparency as to who has applied and who has received them;
* How to reconcile the financial transactions between the two branches;
* Unifying the ledger system of the two branches.

The two parties commit to making all requested data and information available to the respective review teams of international auditors. The process should be accompanied by a communications strategy that promotes transparency and ensures that the public is informed on the developments of the process. This includes agreement on the deliverables of the review and on what parts of the findings should be made available to the public.

**Administration**

The administrative structure of the financial review will be based on an Advisory Board consisting solely of UNSMIL, with oversight and coordination authority over the work of the International Auditing Firm.

*Review Team of International Auditors*

The financial audit review will be conducted by an International Auditing Firm with significant, proven and international experience in auditing of financial institutions, accounting, or forensic work, with access to a global network of specialized resources and chosen through a competitive bidding process. The auditing firm will form two teams to review the Tripoli and Al Bayda offices respectively. UNSMIL will oversee the RFP process, and Governors el-Kaber and el-Hebri will each nominate a representative to join the bidding committee for the selection process.

*Internal Coordination Committee*

In order to assist the preparation of the review, the Central Bank in Tripoli and Al Bayda will each form an Internal Coordination Committee to support the International Auditing Team by providing requested data and by facilitating access to the two institutions.

**Timeline**

**The entire audit review process is expected to be completed within six (6) months from the date of contract signature**. The retrospective elements (analysis of data and operations since September 2014) should be concluded within the first three months and would include a scoping exercise in the initial phase to review available data. The second stage of the review (4th-6th month) should focus on the follow-up of the review process and mark the initiation of the post-review stage. The parties are expected to reach agreement on a clear timeline for an estimated date of completion of the financial audit review.

The post-review stage entails the analysis and publication, if required, of the main findings to promote transparency and win public trust.

**Financing**

The Presidency Council committed to provide the necessary financing for the financial audit review through a budget line that has been earmarked for ad-hoc allocations, which may be potentially complemented by funds from the Bayda CBL. In order to ensure independence of the entity conducting the review as desired by the two parties, the funds will be transferred to UNOPS in accordance with the Project Agreement between the Government of Libya and UNOPS.

**Proposed Representatives**

*International Auditing Firm* with significant, proven and international experience in auditing of financial institutions, accounting, or forensic work, with access to a global network of specialized resources.