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Capacity Building for MNAO through Establishing a Continuing Professional Development Strategy and Program (P155305)

REPORT NO.: RES33068

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
CAPACITY BUILDING FOR MNAO THROUGH ESTABLISHING A COUNTINUING PROFESSIONAL DEVELOPMENT STRATEGY AND
PROGRAM
APPROVED ON JANUARY 22, 2016
TO
MINISTRY OF FINANCE

GOVERNANCE

EAST ASIA AND PACIFIC

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ABBREVIATIONS AND ACRONYMS

CPD	Continuing Professional Development
MNAO	Mongolian National Audit Office
INTOSAI	The International Organisation of Supreme Audit Institutions
INTOSAI IDI	International Development Initiative of the International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
SAI CDF	Supreme Audit Institution Capacity Development Fund
UK NAO	National Audit Office (The United Kingdom)
QA	Quality Assurance



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BASIC DATA

Product Information

Project ID P155305	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 22-Jan-2016	Current Closing Date 30-Aug-2018

Organizations

Borrower Ministry of Finance	Responsible Agency Mongolia National Audit Office
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Project Development Objective (PDO)

Original PDO

The main objective of the proposed project is to strengthen MNAO's capacity, primarily in financial audit and audit firm contracting and oversight. To achieve this objective a comprehensive and systematic continuing professional development strategy together with a time-bound action plan that is needs-driven, tailored and sustainable will be developed and implemented. For this purpose, the current capacity strengths and gaps in financial audit and related areas will be independently assessed by a peer SAI. In parallel to this assessment, MNAO personnel will be surveyed and participate in focus groups to identify their requests for and perceptions of their professional development needs and alternative means to achieve these objectives. The results of the financial audit peer review and the knowledge and learning needs assessment to be carried out under this proposed project, as well as the 2010 performance audit peer review, will feed into development of a CPD strategy for the institution that will then be developed into a 3-year knowledge and learning program. Furthermore, as part of the project, tailored training materials will be developed and actual training will be delivered to MNAO staff as per the CPD strategy and the knowledge and learning program. While the specific content and depth of topics to be covered under the CPD program are largely to be identified and tailored as per the assessments to be carried out, an early indication of capacity gaps reveals such areas as MNAO staff's knowledge and understanding of the relevant standards, i.e. IPSAS and the newly translated ISSAIs, quality control,



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contracting and quality assurance of private audit firm engagements, and audit of the consolidated financial statements of the Government.

Summary Status of Financing

TF	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
TF-A1838	22-Jan-2016	04-Feb-2016	04-Feb-2016	30-Aug-2018	.38	.27	.11

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

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I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. The project has 5 main activities and, overall, the project implementation is on track and remains satisfactory. Cumulative disbursement for the project is USD 270,000 (72%). However, the remaining undisbursed funds are already committed to the recently commenced consultancy to develop software for monitoring performance of the outsourced audits by the MNAO as well as to the planned training events.



2. Activity 1 has been fully completed with the MNAO peer review report by the UK NAO finalized and quality reviewed by the International Donor Initiative (IDI) of the International Organization of Supreme Audit Institutions (INTOSAI) that developed the methodology for reviewing performance of Supreme Audit Institutions. The final quality assured peer review report was delivered to the MNAO and has since been published and disseminated to the financial auditors. Since finalization of the report, the MNAO has developed a plan for implementing the key peer review recommendations (actions ranging from revisions to the legal framework to training staff in certain skills development) and the implementation of this plan has been satisfactory with the vast majority of the recommended actions already taken or in progress by the relevant departments of the MNAO.
3. Activity 2 has also been completed. MNAO carried out the training needs assessments at various levels of the organization e.g. central and local branches. Relevant surveys and focus group discussions took place in January and a final report on results of the training needs assessment was submitted to the Bank in March 2017. The findings of the training needs assessment, coupled with the peer review recommendations, have helped shape the Learning and Development Strategy and plans for the MNAO as well as the associated training efforts under the project that are currently ongoing.
4. Activity 3 on developing a strategy of sustainable continuing professional training program has also been completed. Draft Learning and Development documents including a strategy, a program and a detailed plan prepared with support from an international consulting firm was reviewed and commented by the management of MNAO and was subsequently finalized and approved on September 19, 2017 by the order no. A/164 of the Auditor-General of Mongolia. As part of the Learning and Development strategy developed and adopted, MNAO indicated its desire to have a Competency Framework developed that could be used in staff recruitment and performance appraisal. The project had funds available to accommodate this request with savings of prior international consultancies, so proceeded to engaging an international consultancy to help MNAO develop the requested Competency Framework. A draft of the document has now been received and is expected to be finalized by mid-July.
5. Activity 4 on delivering priority training under the Learning and Development Strategy and Action Plan has commenced and efforts are ongoing. The MNAO has been developing a comprehensive annual training plan that has included training events and activities to be covered under the project in the areas identified as priority by the learning and development strategy and plan. Implementation of the training annual training plan and the associated training is currently ongoing. The MNAO established an online training facility with connection to all the 21 aimag branch offices with support of the project and this facility is currently in use for organization of the appropriate training. Efforts to develop training materials in line with the handbooks developed by the INTOSAI IDI are ongoing with the translation of the handbooks for all three types of audits (financial, performance and compliance) close to being concluded. The MNAO will continue focusing on delivering on the planned training to its auditors during the remaining project implementation period.
6. Activity 5 on developing a transparent and documented procedure for outsourcing audits to private audit firms was also completed. With support from a local consultant, MNAO developed a “Regulation on selection, contracting, and evaluation of independent audit entities to conduct audit of financial statements, and monitoring the quality of performed audits” and obtained approval by the order no. A/191 of the Auditor-General on October 26, 2017. The MNAO has successfully carried out selection of audit firms for the FY2017 outsourced audits following this new regulation. In order to help monitor performance of the outsourced audits, MNAO is currently developing simple software under the project where the relevant audit firm and engagement-level information can be collected,



stored, easily accessed, reviewed and evaluated by those who are exercising quality control and quality assurance for the outsourced audits from the MNAO's side. The software is currently being developed and is expected to be in place by August 30, 2018.

7. The Project has no outstanding audit or safeguards issue, and all legal covenants are complied with.

B. Rationale for Restructuring

8. The Learning and Development Strategy and Action Plan developed under the current SAI CDF-funded project (Activity 3) address most of the key capacity challenges faced by the MNAO and set clear and measurable future directions. The MNAO is set to seek the support of parliament and government for the implementation of the new strategy but expected to take forward most of the actions itself – using the skills and experience of current and new staff and expertise available in the country. However, in some areas it should consider seeking external assistance to fully implement and sustain its efforts.
9. In particular, the Learning and Development Action Plan identified that the MNAO should conduct on-the-job training for financial auditors to implement the recommendations of the NAO Peer Review as a priority activity. Due to the workload of auditors in the first half of the year, under the ongoing project this particular activity could not be planned and executed. Given the priority importance of this activity, the project is seeking an extension of 4 months until the end of the calendar year 2018 and additional funding of \$25,000 in order to implement this on-the-job training.
10. In detail, this proposed on-the-job activity is envisaged as follows: through supervising MNAO financial auditors while they conduct a series of pilot financial audits, priority areas for development should include: risk, sampling, fraud, error evaluation, and materiality. During these audits, audit manuals, audit templates and relevant curriculum materials should be updated and short training workshops delivered.
11. This would require recruiting an international expert in public financial audit to work with the financial audit division.
 - The expert should spend 4 weeks in MNAO during the period starting September to October 2018 plus 10 days support outside the country.
 - The key role of the expert will be to focus on the on the-job-training through the supervision of a sample of pre-audits and audits and short training on priority areas identified in the UK National Audit Office Peer Review. The expert should also work with the Quality Assurance (QA) team to advise on the adoption of international best practice in the quality assurance processes of financial audits to ensure QA adds value and identifies key learning and areas for improvement.
 - Approximate cost of the activity will be \$30,000. Approximately \$25,000 of the expected cost will be borne by the proposed additional financing and the remainder will be programmed into the remaining funds under the project for Activity 4 (hence, the undisbursed balance of the original grant as well as the additional financing requested through this restructuring will all be fully programmed).



II. DESCRIPTION OF PROPOSED CHANGES

This restructuring paper seeks approval from the Country Director (CD) for the following proposed changes: (i) an extension of the current closing date of August 30, 2018 of the SAI-CDF grant project at MNAO to December 31, 2018; and (ii) an additional financing for the amount of USD 25,000 from the SAI-CDF to implement the proposed on-the-job training in financial audit under Activity 4.

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III. SUMMARY OF CHANGES

	Changed	Not Changed
Change in Loan Closing Date(s)	✓	
Additional Financing Proposed	✓	
Change in Disbursement Estimates	✓	
Change in Implementing Agency		✓
Change in Project's Development Objectives		✓
Change in Results Framework		✓
Change in Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in Procurement		✓
Change in Implementation Schedule		✓
Other Change(s)		✓



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IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

TF	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A1838	Effective	30-Aug-2018		31-Dec-2018	30-Apr-2019

UPS_DETAILEDCHANGES_ADDITIONAL_FINANCING_TABLE

ADDITIONAL FINANCING

Source	Currency	Amount	USD Equivalent
Supreme Audit Institutions Capacity Development Fund(SAIF)	USD	25,000.00	25,000.00
Existing Net Commitment USD Amount			380,000.00
Total			405,000.00

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2016	75,000.00	75,000.00
2017	150,000.00	150,000.00
2018	155,000.00	180,000.00

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