

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC23889

<b>Project Name</b>	Capacity Building for MNAO through Establishing a Continuing Professional Development Strategy and Program
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Mongolia
<b>Sector(s)</b>	General public administration sector (100%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (20%), Other accountability/anti-corruption (20%), Other public sector governance (60%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P155305
<b>Borrower Name</b>	Ministry of Finance
<b>Implementing Agency</b>	Mongolia National Audit Office
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	27-Mar-2015
<b>Estimated Date of Approval</b>	16-Mar-2015
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Its abundance of natural resources presents Mongolia with a unique opportunity and challenge to ensure that the wealth generated from its resource utilization is transformed into sustainable and equitable growth. In recent years, the country has adopted a series of reforms to manage public resources in a more sustainable, transparent and decentralized way. As commonly observed in many economies around the world that are reliant on mineral exports, the Mongolian economy has experienced a high degree of volatility in public revenues and been characterized by boom-and-bust cycles. In reaction to the 2008-2009 crisis, the Government of Mongolia (GoM) adopted a Fiscal Stability Framework in 2012, followed by passage of an Integrated Budget Law that sets forth rules for budget planning and decentralization to achieve strengthened accountability and improved distribution of public spending.

Following the decentralization of budget accountability to the local municipal authorities, as introduced by the Integrated Budget Law, the Mongolian Law on State Audit was amended in 2013 to enhance independence of the country's Supreme Audit Institution (SAI) – the Mongolian National Audit Office (MNAO) – both in terms of its financing and human resource management. The new Law provides MNAO an organizational structure and personnel to provide oversight, enhance accountability and support implementation of the decentralized budget nationwide at all levels of government. MNAO's new organizational structure requires local state audit branches to report to the Auditor-General of Mongolia instead of reporting to the local municipal authorities as

previously mandated. The vertical organizational structure now allows state auditors at all levels to receive their operational direction and technical guidance from the Auditor-General and report to one central authority. Amendments to the State Audit Law also call for closer relations between MNAO and the Parliament by introducing Parliamentary Standing Committee procedures to conduct hearings on audit findings and issue a decree with the key implementation actions for rectifying the relevant situations.

### **Sectoral and Institutional Context**

As the country's supreme audit institution, MNAO is mandated to conduct financial, performance and compliance audits. The Integrated Budget Law of Mongolia also stipulates MNAO's responsibilities for auditing the annual government accounts and the relevant timeline for doing so.

In the early stages of its financial audit capacity development, MNAO received support from the UK National Audit Office (NAO) and generally adopted that SAI's financial audit methodology and manual. In the past couple of years, in consonance with the Strategic Plan for 2013-2018, MNAO has updated its financial audit manual to make it more adapted to local conditions, developed audit software and translated the ISSAI standards.

Public sector accounting and financial reporting issues in the country pose significant challenges for government auditors. Accrual based IPSAS were adopted in a relatively low capacity country and implementation has lacked sufficient technical guidance and training to both public sector accountants and auditors. Also, the incomplete implementation of the Government's IFMIS (Integrated Financial Management Information System) has resulted in a lack of integration between budget execution and accounting systems as accounting and financial reporting continue to be done in a variety of local non-integrated software packages. Consequently, accountants enter transactions multiple times into different systems. This situation coupled with lack of IPSAS training increases audit risk and creates the need to prepare MNAO auditors to understand and address these audit challenges and risks.

Furthermore, given MNAO's wide audit mandate and its current staffing level, MNAO engages over 40 private audit firms to conduct the annual financial audits of a large number of budget entities, including IFI-funded projects, and state-owned enterprises. In regard to IFI-funded audit engagements, IFI procurement procedures have been followed to contract audit firms due to perceived weaknesses with MNAO's own audit firm contracting procedures. The need to strengthen and streamline MNAO's private audit firm selection and contracting processes is therefore an important area needing improvement and could lead to the expanded use of country systems in this area

An international team from Norway and Sweden conducted a peer review of MNAO's performance audit capacity in 2010 and peer review results and recommendations were well received by MNAO management. However, MNAO's financial audit capacity and practices have not been externally reviewed in recent years.

The MNAO 2013-18 Strategic Plan was developed with support from the INTOSAI International Development Initiative (IDI). It provides the institution with a strong strategic direction and has been driving the actions taken by MNAO in recent years towards improving its systems and processes e.g. legal framework, audit methodology and standards, and collaboration with

stakeholders including the Parliament. MNAO's leadership considers human resource development is at the heart of its strategy and a critical goal in the 2013-18 Strategic Plan is to provide MNAO personnel with the requisite professional skills to conduct their duties effectively and efficiently.

In this regard, MNAO is mandated to provide methodological support and training to its auditors both at the central and provincial levels. However, an appropriate continuing professional development policy, program and training curricula have not been in place and MNAO has lacked qualified trainers with up-to-date professional knowledge, experience and training materials. MNAO has therefore not been able to organize effective, targeted training for its auditors on a regular basis over the past three years to implement one of its core strategies. The revised organizational structure, particularly the incorporation of provincial auditors, new MNAO legal framework, and move to ISSAIs and accrual based accounting, now create a vastly more complex set of professional development requirements and need for a carefully and professionally developed CPD program.

The need to establish a well-structured, needs-driven and sustainable continuing professional development strategy together with an action plan and a training program is consequently a priority area for MNAO. The ongoing practice of exposing senior and junior auditors to the same training content on an irregular basis, irrespective of their level of experience and areas of expertise, calls for a more systematic approach to addressing capacity gaps. Generally speaking, training and human resource development has become even more crucial yet challenging for MNAO now that under the revised legal framework the Auditor-General is directly responsible for keeping the professional knowledge and practices up to date for its over 380 auditors, inclusive of those at the provincial level, as compared to the cohort of about 60 auditors at the central level previously.

### **Relationship to CAS/CPS/CPF**

Equitable and transparent management of public revenues and expenditures is a priority area of the Bank's engagement in Mongolia, a resource-rich country with rapidly rising government revenues. In a general sense, strong public sector audit can increase the effective, efficient and economic use of public resources and help ensure that scarce resources are used as intended in financing the delivery of government services to the public, especially the poor. More specifically in this regard, under Pillar 1 of the 2013-2017 CPS, the Bank reiterates its commitment to improved implementation of planning, budgeting, financial reporting and auditing policies of the government through continued technical assistance and advice. The proposed project for enhancing capacity for MNAO through development of a continuing professional development strategy and program is aimed at further strengthening public sector auditing in the country and therefore is in full alignment with the current CPS. As previously mentioned, the proposal is also fully consistent with MNAO's own Strategic Plan developed in coordination with the INTOSAI.

Furthermore, the current CPS states that the Bank will work towards greater use of country systems during the CPS period and that the Bank envisions its projects to eventually be audited as part of the overall audit of the government accounts by MNAO. By strengthening MNAO's own technical auditing capabilities as well as its contracting of private audit firms, the proposed project activities will (i) achieve the CPS objective of working toward greater use of country systems during the CPS period, (ii) enhance the possibility of recognizing MNAO as an acceptable auditor of Bank-financed projects, effectively moving to the use of country systems in audit, and (iii) also help ensure that Bank projects receive high quality audits with due attention to the resources being used

for the intended purposes with economy and efficiency. From this perspective, the proposed project activities will benefit the entire Bank portfolio, which is aligned with the CPS as well.

Some SAIs, such as the U.S. Government Accountability Office (U.S. GAO), choose to allocate much of their resources to performance auditing and contract private audit firms to do many non-strategic financial audits. MNAO has made a similar strategic choice. Country systems in the case of both SAIs means: (i) having strong audit capabilities to perform financial audits of strategically significant government entities and (ii) strong institutional processes to contract and oversee the work of private audit firms. Thus, assisting MNAO to strengthen its audit capabilities and assisting it to strengthen its audit firm contracting and quality assurance oversight processes are both measures that are fully consistent with working toward the greater use of country systems.

## **II. Project Development Objective(s)**

### **Proposed Development Objective(s)**

The main objective of the proposed project is to strengthen MNAO's capacity, primarily in financial audit and audit firm contracting and oversight, through development and implementation of a comprehensive and systematic continuing professional development strategy together with a time-bound action plan that is needs-driven, tailored and sustainable. To achieve this objective, 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, contracting and quality assurance of private audit firm engagements, and audit of the consolidated financial statements of the Government.

### **Key Results**

Through implementation of the proposed project, a comprehensive and needs-driven CPD program will be developed and implemented at MNAO that will ultimately, on a sustainable basis, help the institution achieve its strategic goal of equipping the institution with human resources with professional skills to conduct their duties effectively and efficiently.

More specifically, the proposed project activities will result in the following main outputs:

- A peer review report on MNAO's financial audit activities to be prepared by an experienced SAI using the INTOSAI's SAI PMF methodology as deemed appropriate;
- A knowledge and learning needs assessment covering MNAO staff at both the central and local branch offices;
- A comprehensive and needs-based CPD strategy will be developed together with a time-bound action plan for three years;
- A library of training materials will be developed that are customized and tailored as per the capacity gaps identified and needs surveyed from MNAO staff;
- Delivery of knowledge and learning sessions: All staff including auditors, senior auditors, audit managers and directors will participate in the training and other K&L activities to be delivered as part of the CPD program. Several specialized trainers will be prepared and both technical and pedagogical skills of the trainers will be improved to sustain the program and,
- An efficient, effective and fully transparent audit firm contracting process will be designed together with development of clear and fair procurement documents including audit bidding instructions, requests for proposals, audit terms of reference, selection criteria and weights, proposal evaluation guidance, and model contracts, among others. The result would be a private audit firm selection/contracting process applicable to the procurement of audit firms, irrespective of the source of funding for the audits.

The following list includes the direct beneficiaries of the project:

- Senior auditors and auditors of MNAO – 317 persons
- Audit managers – 36 persons
- Management – 30 persons
- Private audit firms engaged in audits outsourced by MNAO-45

Stakeholders and users of MNAO audit reports, i.e. the Parliament, state organizations, state-owned enterprises, financial institutions, international organizations, as well as the general public, will also benefit from improvements in auditors' knowledge and skills through enhancement in audit report quality, MNAO thought leadership, and greater public sector accountability over the use of scarce public resources.

### **III. Preliminary Description**

#### **Concept Description**

The proposed project will assist MNAO in establishing and implementing a comprehensive and systematic CPD strategy and program. For this purpose, two assessments will be carried out largely in parallel to identify learning needs early in the project:

- Independent, external peer review using SAI PMF to identify what MNAO may not yet know or perceive as its training needs (what MNAO doesn't know it doesn't know).
- A knowledge and learning expert guided assessment of mostly internal perceptions of training needs and demand for training.

These two complimentary assessment tools will provide inputs into the design and development of a formal CPD program that includes both (a) hard skills in technical topics such as accrual based IPSAS and ISSAI application and (b) soft skills such as leadership and teamwork. These inputs are targeted to be completed within the first 6-9 months of the Project.

MNAO desires to develop a well thought through systematic CPD program that provides necessary knowledge and learning opportunities to each auditor at the appropriate time in his or her MNAO professional career using the most appropriate means of learning and technology (classroom, on-the-job, self-study, distance learning, etc.) and takes into consideration the wide geographic dispersion of MNAO auditors. Moreover, learning will be tracked and monitored for each MNAO auditor, whether he or she is based in a remote part of Mongolia or at MNAO headquarters, to ensure an effective, efficient, and economic systematic application of the CPD program.

The CPD Program will also address the important corporate transitional issues faced by MNAO in regards to: (a) bringing the recently incorporated decentralized regional auditors up to a consistently high level of knowledge and skills with MNAO headquarter's auditors, and (b) applying the recently translated ISSAIs that are now in printing. The design and development of the CPD program is targeted to be completed within the first 15-18 months of the Project.

Development of training materials, strengthening of trainer skills, training and other knowledge and learning activities will be mostly concentrated in the final 18-21 months of the project. Obtaining and adapting ISSAI and other clearly-needed training materials will begin early in the project and training in such subjects could begin even before the CPD strategy and program are formally finalized and approved.

Details on the activities proposed for implementation at MNAO with support from the SAI Capacity Development Fund can be grouped in the following five main activities to be implemented over the course of three years (with the approximate budgets identified):

Activity 1: Conduct a peer review of MNAO's financial audit activities by an experienced SAI using the INTOSAI's SAI PMF methodology as deemed appropriate (USD 70,000, SAI personnel and travel cost). A peer review has never been performed on MNAO's financial audit capabilities. MNAO critically needs, and its management supports, a peer review concentrating on its financial audit capacity and related domains. The peer review would provide an objective, third-party assessment of its strengths, weaknesses and priority improvement needs. These priority areas for improvement would then be incorporated in the organization's CPD strategy and the relevant knowledge and learning program.

Activity 2: In parallel to the SAI peer review, a comprehensive MNAO knowledge and learning needs assessment will be carried out covering the entire organization, including its local branch office staff (USD 40,000, local consultants). The knowledge and learning needs assessment will be carried out to identify capacity gaps from within the organization. This assessment will cover all MNAO staff, both at the central and local branch offices and utilize various surveying methods such as enquiry, questionnaire, focus group discussions, individual interviews etc.

Activity 3: A comprehensive, needs-driven and sustainable continuing professional development strategy together with a detailed action plan for three years will be developed based on the peer reviews conducted at MNAO and the knowledge and learning needs assessment (USD 40,000,

international consultant + local consultant).

Activity 4: Development of customized training materials tailored to MNAO's capacity building needs described in the CPD strategy and knowledge and learning program and delivery of the actual training to MNAO personnel during most of the three-year period of the CPD program (USD 210,000, international and local consultants, local and regional training, including some but minimal travel costs). While the specific content and depth of topics to be covered under the training 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 ISSAIs (IPSAS implementation guidance and training is being developed and delivered by MOF; ISSAI training materials will be translated into the Mongolian language and adapted for the Mongolia context), quality control, contracting and management of private audit firm engagements, and auditing of the consolidated financial statements of the Government. At the end of project period, training coverage of over 90 percent of the total auditing staff, or approximately 350 auditors, is expected. Training delivery is expected to include innovative modalities such as online/virtual training using a newly established VPN connection available throughout MNAO offices. To minimize project costs, MNAO will seek to utilize, translate and customize for the local context as necessary, existing ISSAI and other training materials that may be available from IDI or other SAIs.

Activity 5: Technical assistance to establish an efficient and fully transparent and documented procurement process for contracting private audit firms (USD 20,000, international consultant + local consultant/interpreter). As part of the project, the current MNAO practice of engaging private audit firms to conduct the annual financial audits of budget entities and state-owned enterprises on behalf of MNAO will be analyzed to improve documentation and transparency. Such efforts will be timely and beneficial as, in addition to budget entities, IFI-funded projects are starting to engage in a similar practice where MNAO carries out auditor selection for the projects but by following the IFIs' own procurement procedures. This proposed project will aim at strengthening and streamlining MNAO's private audit firm selection processes carried out for budget entities and IFI-funded projects. For these audits conducted by private audit firms MNAO will apply its quality control and quality assurance framework, which may need improvement if identified as priority areas of capacity development as per the continuing professional development strategy and the relevant training program.

#### IV. Safeguard Policies that Might Apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

**V. Financing (in USD Million)**

Total Project Cost:	0.38	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0
Supreme Audit Institutions Capacity Development Fund			0.38

**VI. Contact point****World Bank**

Contact: Regis Thomas Cunningham  
 Title: Sr Financial Management Specialista  
 Tel: 5788+7610 /  
 Email: rcunningham@worldbank.org

Contact: Badamchimeg Dondog  
 Title: Financial Management Analyst  
 Tel: 5725+8240 /  
 Email: bdondog@worldbank.org

**Borrower/Client/Recipient**

Name: Ministry of Finance  
 Contact: Khurelbaatar Gantsogt  
 Title: State Secretary  
 Tel: +976-51-2644346  
 Email: gantsogt\_kh@mof.gov.mn

**Implementing Agencies**

Name: Mongolia National Audit Office  
 Contact: Bayarmaa Khorjav  
 Title: Manager, Strategy and Planning Department  
 Tel: 976-99156639  
 Email: horjav@yahoo.com

**VII. For more information contact:**

The InfoShop  
 The World Bank  
 1818 H Street, NW  
 Washington, D.C. 20433  
 Telephone: (202) 458-4500  
 Fax: (202) 522-1500  
 Web: <http://www.worldbank.org/infoshop>