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J. Humberto Lopez  
Director, Central America  
Latin America and the Caribbean Region

April 24, 2017

His Excellency  
Mr. Iván Acosta  
Minister of Finance and Public Credit  
Ministry of Finance and Public Credit  
Managua, Nicaragua

Re: Grant No. TF0A4518  
Improving Quality and Efficiency of Public Sector Audit Project  
Letter Agreement

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Nicaragua, through its Office of the Comptroller General (“Recipient”), I am pleased to inform you that the International Development Association (“Association”), acting as administrator of grant funds provided by various donors (“Donors”) under the Supreme Audit Institution Capacity Development Multi-Donor Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed four hundred ninety-seven thousand United States Dollars (US \$497,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

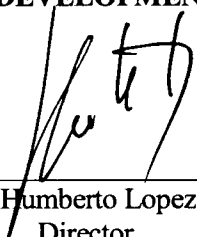
This Grant is funded out of the abovementioned trust fund for which the Association receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Association’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the Association.

Very truly yours,

**INTERNATIONAL DEVELOPMENT ASSOCIATION**


By 

J. Humberto Lopez  
Director

Central America  
Latin America and the Caribbean Region

**AGREED:**

**REPUBLIC OF NICARAGUA**

By   
Authorized Representative

Name: Mr. Ivan Acosta

Title: Minister of Finance

Date: June 1<sup>st</sup>, 2017

cc: Mr. Luis Angel Montenegro, President, Superior Council, Office of the Comptroller General of the Republic of Nicaragua  
Mr. Fernando Jimenez Latorre, Executive Director, The World Bank

**Enclosures:**

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated February 15, 2012
- (2) Disbursement Letter of the same date as this Agreement, and Disbursement Guidelines for Investment Project Financing, dated February 2017
- (3) Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016
- (4) World Bank Procurement Regulations for Borrowers under Investment Project Financing" dated July 1, 2016

**Article I**  
**Standard Conditions; Definitions**

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

- (a) “CGR” means *Contraloría General de la República*, Office of the Comptroller General of the Recipient.
- (b) “INTOSAI” means International Organization of Supreme Audit Institutions.
- (c) “ISSAIs” means International Standards of Supreme Audit Institutions issued by INTOSAI which state the basic prerequisites for the proper functioning and professional conduct of the Supreme Audit Institutions and the fundamental principles to be used in auditing of public entities.
- (d) “ISSAI No. 30” means the ISSAI for the code of ethics for auditors in the public sector, as further described in: [http://issai.org/media/12926/issai\\_30\\_e.pdf](http://issai.org/media/12926/issai_30_e.pdf).
- (e) “ISSAI No. 40” means the ISSAI for quality control of supreme audit institutions, as further described in: [http://issai.org/media/12938/issai\\_40\\_e.pdf](http://issai.org/media/12938/issai_40_e.pdf).
- (f) “NAGUN” means the Recipient’s government audit standards.
- (g) “OLACEFS” means *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores*, the Latin America and the Caribbean Organization of Supreme Audit Institutions.
- (h) “Incremental Operating Costs” means the incremental expenses incurred by the CGR on account of Project implementation, supervision, monitoring and evaluation, which may include office equipment and supplies, reasonable commercial banking charges and fees, communication and insurance costs, operation and maintenance of office equipment, office administration costs, travel, and *per diem* for CGR’s staff and staff of partner SAIs providing technical assistance for project-related activities, and remuneration of locally contracted UAA staff, none of which would have been incurred in the absence of the Project.
- (i) “Supreme Audit Institutions” or “SAIs” are national agencies responsible for auditing government revenue and spending.
- (j) “SICA” means *Sistema de Control de Auditorías*, the System of Audits Control, originally designed and used in Chile.

- (k) “Training and Workshops” means reasonable expenditures (other than for consultants’ services and non-consultants’ services) incurred by trainers, trainees and workshop participants for reasonable travel, room, board, and *per diem* expenses in connection with training and workshops under the Project, including registration fees, facility and equipment rentals, reproduction of training material, and other activities directly related to training preparation and implementation.
- (l) “UAA” means *Unidad de Apoyo Administrativo*, the CGR’s administrative support unit.

## **Article II**

### **Project Execution**

2.01. ***Project Objectives and Description.*** The objective of the Project is to improve the quality and efficiency of public sector audit. The Project consists of the following parts:

#### Part 1. Training of CGR’s Auditors and Staff from the Internal Audit Units

- (a) Implementation of a training strategy for CGR’s auditors and staff from the internal audit units of public sector entities on the deployment of updated auditing standards and audit manual, including:
  - (i) carrying out of a train-the-trainers course (on-line and face-to-face) led by a certified ISSAI facilitator to train CGR auditors (future trainers on ISSAIs);
  - (ii) deployment of on-line training and face-to-face sessions to train CGR auditors and internal auditors working in public sector entities in the application of new standards; and
  - (iii) provision of specialized training to a selected group of CGR officials on performance audit through a knowledge exchange arrangement with the Mexican SAI (*Auditoria Superior de la Federacion*) as part of the existing OLACEFS’ internship program on performance audit.

#### Part 2. Implementation of an Integrated Government Audit System

- (a) Adaptation and implementation of an integrated government audit system, including:
  - (i) amendment of an existing cooperation agreement between the Recipient’s CGR and Chile’s Comptroller General’s Office for the use and adaptation of the SICA system;
  - (ii) review of SICA’s features and functionalities to identify and define adjustments needed to respond to CGR’s needs, including the preparation of a comprehensive work plan to complete the adaptation;
  - (iii) adaptation of existing functionalities and development of any required additions to SICA for its operationalization and implementation;

- (iv) training of audit supervisors and staff responsible for audit field work on the use of the system; and
- (v) carrying out of two pilot audits (financial and compliance) using SICA and the updated NAGUN based on ISSAIs.

### Part 3. Implementation of a Quality Control System

- (a) Design and implementation of a quality control system in compliance with ISSAI No. 40, including:
  - (i) design of a quality control system based on the CGR's mandate and context, including the definitions and implementation of policies and procedures for improving the performance of the CGR and production of CGR's reports;
  - (ii) update of CGR's code of ethics in accordance with ISSAI No. 30, and training of auditors; and
  - (iii) piloting of the use of the quality control system in three financial audit engagements with the support of an independent international expert.

### Part 4. Project Management, Monitoring, and Audit

- (a) Project management, monitoring and audit.

2.02. ***Project Execution Generally.*** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the CGR in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. ***Institutional and Other Arrangements.*** (a) The Recipient shall carry out the Project through the CGR, supported by the UAA and its respective technical units.

(b) The Recipient shall maintain, throughout Project implementation, the UAA with staffing and responsibilities acceptable to the Association.

2.04. ***Donor Visit.*** For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the Association's request, enable the representatives of the Donors to visit any part of the Recipient's territory for purposes related to the Project.

#### 2.05 ***Documents; Records.***

In addition, and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient's financial and narrative progress reports submitted to the Association; (iii) the Recipient's financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient's implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the Association are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

**2.06. Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the Association. Each Project report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Association not later than six months after the Closing Date.

**2.07. Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the Association as part of the Project Report not later than one month after the end of each calendar semester, covering the semester, in form and substance satisfactory to the Association.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the Association not later than six months after the end of such period.

**2.08. Procurement**

All goods, non-consulting services, and consulting services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the "World Bank Procurement Regulations for Borrowers under Investment Project Financing" dated July 1, 2016 ("Procurement Regulations"), and the provisions of the Recipient's procurement plan for the Project ("Procurement Plan") dated January 27, 2017 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.

**Article III**  
**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the Association may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, Training and Workshops, and Incremental Operating Costs under the Project	497,000	100%
<b>TOTAL AMOUNT</b>	497,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2018.

**Article IV**  
**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance and Public Credit.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Minister of Finance and Public Credit  
Ministry of Finance and Public Credit  
Frente al Edificio de la Asamblea Nacional  
Managua, Nicaragua

Facsimile:  
(505) 2222-3033

4.03. ***Association's Address.*** The Association's Address referred to in Section 7.01 of the Standard Conditions is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Telex:  
248423 (MCI) or 64145 (MCI)

Facsimile:  
1-202-477-6391