

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

**PROGRAM TO IMPROVE THE CONTROL FUNCTION OF THE OFFICE OF THE
COMPTROLLER GENERAL OF THE NATION**

(EC-L1119)

LOAN PROPOSAL

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1.	Multiyear execution plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181298
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2.	Itemized budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181181
3.	Sample of institutional processes http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181955
4.	COBIT analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181344
5.	Safeguards form http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37845195
6.	Economic analysis
6.a.	Main document (Word) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181943
6.b.	Support documents (Excel) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181328
7.	Institutional Assessment Report of the Office of the Comptroller General (CGE) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181259
8.	List of CGE systems and applications http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181243
9.	Program disbursement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181209

10. Compliance with control action recommendations
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181174>
11. Control unit perception survey on review of reports
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181191>
12. Ex post evaluation terms of reference
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13. Progress Monitoring Report (PMR)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38181876>
14. 7Substitute Regulations on Liability. Resolution 026-CG
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38206573>

ABBREVIATIONS

AWP	Annual work plan
CGE	Contraloría General del Estado [Office of the Comptroller General of the Nation]
CPEI	Coordinación de Planificación y Evaluación Institucional [Institutional Planning and Assessment Coordination Unit]
DAI	Dirección de Auditoría Interna [Internal Audit Division]
e-SIGEF	Sistema Integrado de Gestión Financiera [Integrated financial management system]
INTOSAI	International Organisation of Supreme Audit Institutions
LOCGE	Ley Orgánica de la Contraloría General del Estado [Office of the Comptroller General Act]
MRL	Ministry of Labor Relations
OECD	Organisation for Economic Co-operation and Development
OEL	Optional electronic link
PEP	Program execution plan
PMR	Progress Monitoring Report
REL	Required electronic link
SAI PMF	Superior Audit Institutions Performance Measurement Framework
UAIs	Unidades de Auditoría Interna [internal audit units]

PROJECT SUMMARY

ECUADOR PROGRAM TO IMPROVE THE CONTROL FUNCTION OF THE OFFICE OF THE COMPTROLLER GENERAL OF THE NATION (EC-L1119)

Financial Terms and Conditions					
Borrower: Republic of Ecuador Executing agency: Office of the Comptroller General of the Nation (CGE)			Flexible Financing Facility*		
			Amortization period:		25 years
			Weighted average life:		Maximum of 15.25 years**
			Disbursement period:		4 years
			Grace period:		12.5 years
			Inspection and supervision fee:		***
Source	Amount (US\$)	%	Interest rate:		LIBOR-based
IDB (Ordinary Capital)	20,000,000	97	Credit fee:		***
Local	650,000	3	Approval currency:		U.S. dollars from the Ordinary Capital
Total	20,650,000	100			
Project at a Glance					
Program objective: To contribute to making the Government of Ecuador’s control system more effective by improving the quality, *** coverage, and timeliness of the Office of the Comptroller General’s control of public funds.					
Special contractual conditions precedent to the first disbursement:					
The executing agency will present evidence that: (i) the borrower and the executing agency have signed an agreement to transfer the loan proceeds and execute the program activities, and that this agreement is in effect; (ii) the executing agency has engaged a general program coordinator; and (iii) the executing agency has approved the program’s Operating Regulations with the Bank’s prior no objection (paragraph 3.8).					
Exceptions to Bank policies: None					
Procurement: Procurement processes under the program will be carried out in accordance with Bank policies (documents GN-2349-9 and GN-2350-9).					
Project qualifies as:					
SEQ []		PTI []		Sector []	Geographic []
				Headcount []	

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final amortization date and the original weighted average life (WAL). The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.

** The original WAL of the loan may be shorter, depending on the effective signature date of the loan contract.

*** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of Bank policies on the methodology for calculating charges on Ordinary Capital loans.

**** Understood as consistency of information in audit reports.

I. DESCRIPTION AND RESULTS MONITORING

A. General background, problems to be addressed, and rationale

- 1.1 As provided in the Ecuadorian Constitution, the Office of the Comptroller General of the Nation (CGE) is a technical agency with separate legal status and administrative, financial, budgetary, and organizational autonomy. The CGE is Ecuador's supreme audit institution, responsible as such for controlling the use of State resources and fulfillment of the objectives of State institutions¹ and legal entities that are subject to private law and use public funds. Under the CGE Act (Law 2002-73), the CGE is responsible for directing the State control, oversight, and auditing system and regulating its operation, with a view to reviewing, verifying, and assessing the fulfillment of the vision, mission, and objectives of State institutions and the use of resources and administration and safekeeping of public assets.
- 1.2 The State system of control, oversight, and audits is implemented through internal and external controls. Every State institution is administratively responsible for its own internal control. The responsibility for external control of public funds falls to the CGE and other control institutions of the State within the sphere of their respective competencies² and is exercised on an ex post basis and independently from the executive branch of government. External control takes the form of external audits conducted in one of two ways: (i) directly under CGE responsibility through CGE central or deconcentrated agencies;³ or (ii) internal audit units (UIAs) located within each institution but technically reporting to the CGE.⁴ UIA staff is appointed, removed, and transferred by the Comptroller General; the CGE pays the salaries of the incumbents of the decentralized autonomous governments' UIAs.⁵

¹ The following are State institutions: (i) legislative, executive, and judicial branch units and agencies; (ii) electoral bodies; (iii) control and regulatory agencies; (iv) entities forming a part of the autonomous sectional system; (v) agencies and entities created by the Constitution or the exercise of government authority law, to provide public utilities or carry out economic activities assumed by the State; and (vi) legal entities created to provide public utilities pursuant to a sectional legislative act (Constitution of Ecuador, Article 118). Also included are legal entities organized under private law for social or public purposes, provided that public funds account for 50% or more of their equity, fund, or tax share.

² Constitution of the Republic of Ecuador, Articles 211 and 212, and Office of the Comptroller General Act, article 6.

³ The CGE has carried out a deconcentration process, delegating certain levels of authority to the heads of regional and provincial offices. The CGE currently has nine regional offices and 23 provincial offices, in addition to its central office in Quito.

⁴ There are 390 UIAs distributed throughout Ecuador that conduct external control but do so "internally." They are required to prepare, execute, and report on an annual work plan based on rules and procedures established by the CGE.

⁵ Office of the Comptroller General Act, article 14.

- 1.3 The administrative control system exercised through external and internal control actions⁶ is based on an annual plan⁷ pursuant to which the CGE: (i) makes determinations on fault-based administrative and civil liability and on indications of criminal liability in connection with matters and procedures subject to its control; (ii) issues rules for the performance of its duties; and (iii) advises agencies and entities subject to its control.
- 1.4 As a result of the approval of the Ecuadorian Constitution in 2008, enactment of the Public Service Act of 2010, and implementation of the new Basic Statute for Process-based Organizational Management of 2012, the CGE's organic structure must be aligned along value-adding, advice, and support processes. Accordingly, the CGE delineated its organic structure on the basis of eight processes that add value in line with the following technical functions: (i) management of the use of government resources at the central level; (ii) management of the use of resources at the deconcentrated level; (iii) regulatory management; (iv) legal management; (v) responsibility/liability;⁸ (vi) review remedies; (vii) advocacy;⁹ and (viii) ethics and citizen participation.
- 1.5 The Public Service Act also required homogenizing human talent management throughout the public sector, in terms of occupational groups and compensation scales.¹⁰ At present, each institution is responsible for preparing an institutional organization and staff structuring proposal, based on its needs and in compliance with established rules, and submitting it to the Ministry of Labor Relations (MRL)

⁶ Control actions include: special reviews, financial audits, performance audits, environmental audits, audits of public or engineering works, and sworn asset disclosures.

⁷ This plan extends from the issuance of the work order to the delivery of the final report, covering all activities associated with the instructions issued by the office head with respect to the entity under review.

⁸ The audit reports approved by the Comptroller or his/her delegate are returned to the external and internal audit units for purposes of determining responsibility (civil, administrative, and/or criminal) on a preliminary basis. The units prepare a background document with a description of facts that could result in liability and the names of the officials and degree of presumed liability, among other information. This document must be sent to the Liability Division, which then conducts a review and either confirms or dismisses any liability arising from each approved audit report, issuing a resolution accordingly.

⁹ Once liability has been confirmed, if it involves the recovery of funds or a presumption of criminal action, the file is sent to the Advocacy Division so that the relevant proceeding may be initiated. In this case, the Office of the Comptroller General becomes the advocate at the relevant civil or administrative court. Under the Office of the Comptroller General Act, administrative penalties are applicable to dignitaries, authorities, public officials, and other public servants at State institutions who have incurred in one or more grounds for fault-based administrative liability stemming from the results of the audits. Resolutions providing for administrative penalties and dismissal are deemed final and enforceable following administrative proceedings (Article 23, Agreement on Liability).

¹⁰ Under a recent MRL resolution, three types of occupational groups with 20 compensation grades were established for 2012, in addition to the senior rank group with 10 compensation grades ranging from director to President of Ecuador.

for approval. Accordingly, in 2012, the CGE submitted and obtained MRL approval for a new organizational structure and its respective job evaluation, classification, and description manual, based on which it is in the process of adjusting its human talent.

- 1.6 The CGE has made significant institutional consolidation efforts such as: (i) deconcentration of functions; (ii) staff renewal; and (iii) improvement of technological and physical infrastructure. The following performance results were achieved in 2012: (i) regarding the control exercised by the UIAs, the CGE approved 799 audit reports and special reviews. The amount reviewed was US\$3.9 billion, with administrative liability in the amount of US\$1.3 million, civil liability in the amount of US\$4.2 million, and indications of criminal liability in the amount of US\$0.7 million;¹¹ and (ii) regarding the control carried out directly by the CGE, 1,622 audits and special reviews were conducted, of which 1,191 were planned and 431 were spontaneous. Control actions approved that year (including those carried forward from prior years) totaled 1,306.
- 1.7 The role of the CGE as the country's supreme audit institution has been significantly expanded in recent years. Thus, the CGE's scope of authority increased from 2,858 public units subject to control in 2010 to 6,230 units in 2013;¹² public expenditures increased almost 75% over the same period (from slightly more than US\$20 billion to almost US\$35 billion); and transfers to decentralized autonomous governments rose by nearly 100% in the last 10 years (from close to US\$1 billion in 2002 to more than US\$2 billion in 2012).¹³
- 1.8 In this context, the recently approved Institutional Strategic Plan [PEI 2013-2017](#) identifies four strategic objectives that will be supported by this operation: (i) improving communications and information between society and the CGE; (ii) acting effectively in controlling public funds; (iii) developing human talent competencies, performance, and well-being; and (iv) strengthening management capacity and institutional resources. In addition, in view of the fast growth of transfers, the CGE has given priority to strengthening internal audit units in decentralized autonomous governments.

¹¹ Of the 2,166 audit reports approved between 2011 and 2013 to date, administrative penalties that involved restitution were imposed in 468 cases (21%)

¹² CGE registry system, 2013. Public entities or units subject to control are those that have their own accounting system and directly manage central government budget resources.

¹³ e-SIGEF [Integrated Financial Management System] Ministry of Finance, 2013.

- 1.9 **The problem to be addressed.** The program will emphasize improving the effectiveness of the public administration management control system, particularly compliance with the recommendations¹⁴ issued by the CGE,¹⁵ which becomes mandatory once the report is approved. Based on a sample analysis, 23% of the recommendations issued in 2010 have been implemented as of 2013;¹⁶ in turn, 39% of the administrative penalties imposed in 2012 were successfully collected.¹⁷ This situation is partly due to the quality, coverage, and timeliness of the control actions subject to improvement. This is reflected in:¹⁸
- a. Quality: (i) 80% of the audit reports are returned by the internal reviewers to the auditing team as many as three times to correct errors, and up to six times in 20% of the cases, which is a common practice in the chain of supervision; (ii) 21% of preliminary findings of liability were subsequently confirmed; (iii) CGE supervisors estimated that 66% of the quality problems in the audit reports are due to the fact that the information provided by the responsible officials at the audited entities (public-sector managers¹⁹) is incomplete.
 - b. Coverage: (i) 18% of the 6,241 public entities registered in 2012 were subject to some type of control action, either internal or external, indicating the need to expand control coverage; (ii) 78% of the prioritized and planned high-risk

¹⁴ The CGE estimates that the government has been able to recover significant amounts through determination of liability. Just in a sample of 11 projects where liability was found, compliance with recommendations led to the recovery of US\$165 million, evidencing a great potential for earnings.

¹⁵ There are several types of recommendations that can involve, for example, environmental issues, administrative procedures, breach of contractual conditions, and accounting issues. Recommendations are issued by the CGE at the conclusion of a control action, when irregularities, risk situations, or opportunities for improvement are identified and recorded. Recommendations are intended to eliminate or mitigate structural causes of problems, recover assets or property, reduce the vulnerability of processes to irregularities, identify liability, and fine-tune the transparency and quality of government programs. If such recommendations arise from a finding that involves potentially attributing an act to a public official, a preliminary liability determination process is simultaneously initiated. As a result of this process, the existence of liability is either dismissed or confirmed and, in the latter case, the relevant proceedings (administrative, civil, or criminal) are initiated.

¹⁶ Of a sample of the 910 recommendations issued by the Development and Social Inclusion Auditing Division, the Production, Environment, and Finance Division, the Sectional Development and Social Security Division, and the Projects and Environment Division, in 2010, 216 recommendations have been implemented as of 2013 (23%). (Information prepared by the Institutional Planning and Assessment Coordination Unit of the CGE.) In OECD countries, the percentage of compliance with recommendations issued by control agencies ranges from 60% to 75%, while in Peru, for example, the figure was 42% in 2012. Sources: Performance Report, Office of the Auditor General of Canada, Ontario, Canada, 2010, and Planning Division, Office of the Comptroller General of Peru.

¹⁷ The 2012 percentage refers to 239 resolutions confirming administrative penalties that were collected (US\$217,029.49) out of a total of 612. (Source: CGE Liability Division).

¹⁸ Basic statistical information prepared by the CGE (2013) on work in 2012.

¹⁹ Managers, unlike public servants in general, are expenditure authorizing officers, since they have authority to determine the use of public funds and have liability in that regard; consequently, they are audited.

entities were subject to some type of control action,²⁰ while the CGE considers that it should audit 100% of them on an annual basis.

- c. Timeliness: (i) auditors need an average of 69 business days from the start of a control action to the final conference;²¹ (ii) subsequently, 68 days elapse on average from the final conference to the Comptroller's approval, exceeding the scheduled time frames; and (iii) in 2012, 36% of work orders²² required deadline extensions.
- 1.10 These issues stem from two different types of causes: (i) those considered major, since they directly impact the CGE's capacity to perform its mission role, including institutional processes, information systems, and human talent; and (ii) those having a lesser impact on the performance of control actions, including CGE interaction with public-sector managers and society and certain physical infrastructure needs.
- 1.11 The processes for performing control actions could be optimized, standardized, and automated. These processes are supported by rules and methodologies that require updating in line with new international standards.²³ To date, a review has been conducted of all mission²⁴ and support processes. In a sample of three processes,²⁵ there could be an efficiency gain, especially when value-adding activities account for 25% of total activities in each process. A [COBIT analysis](#)²⁶ performed in 2011 showed that 26.5% of the 34 analyzed processes have a maturity level of 1, while 58.8% have a maturity level of 2, and 14.7% reach level 3.

²⁰ A high-risk rating considers the following variables: percentage of accrued budget, level of conflict (complaints), expiration (seven years), and strategic area of intervention for the State. In 2012, the risk management system succeeded in identifying only nine high-risk entities, apparently significantly underestimating the actual total; two were not done due to unforeseen circumstances. This operation will support the strengthening of this system (among others), making it possible to arrive at a more realistic universe; as a result, the current baseline will be modified.

²¹ On average, they exceed the initially scheduled time frame, which is 38 business days, by 82%.

²² For audits conducted by the CGE at its sector offices.

²³ Such as those considered by the OECD in Good Practices in Supporting Supreme Audit Institutions, 2012.

²⁴ The CGE currently has 86 mission processes grouped into 9 management systems: control; internal audits; deconcentrated control; ethical issues; citizen participation and asset control; legal coordination; review remedies; technical standards and administrative development; liability; and advocacy, collection, and enforced collection.

²⁵ [The three processes analyzed](#) by the project team were: complementary activities within the value-adding management group, preparation of draft legal instruments, and staff movements within the advisory and support management group.

²⁶ Measures the level of maturity for management and control of information technology processes based on the status of operational processes at the organizations. The level is measured on a scale of 0 to 5, where 0 means that there are no defined processes and 5 means that the processes have been fine-tuned to a best practices level, based on the results of continuous improvements and where information technologies are used on an integrated basis to automate the work flow, providing quality- and effectiveness-enhancing tools.

- 1.12 With regard to personnel management, the support processes that underpin the control activities reveal²⁷ the need for specialized methodologies, tools, and application techniques to ensure the alignment of recruitment, talent retention, curriculum management, and training plans. With regard to financial management, the CGE lacks specific procedure handbooks or instructions for the deconcentrated units, aside from those issued by the Ministry of Finance; transactions in the e-SIGEF²⁸ are performed at the centralized level; and the financial documentation filing process needs to be revised because it operates by chronological sequence rather than by single accounting entry certificate number.
- 1.13 The processes of preparing the annual work plans, Institutional Strategic Plan, annual procurement plan, and budget plan are not aligned and matched up. In some cases, the roles and responsibilities of the staff in the administrative area have not been officially assigned. The annual procurement plan is not updated during the course of the year, despite the fact that many unforeseen procurement processes not included in the budget, arising from unplanned control actions, are carried out.
- 1.14 Moreover, the information systems require coordination and support from more modern technologies. At present, the CGE has seven information systems associated with the value chain. Since they were developed prior to approval of the Basic Statute for Process-based Organizational Management, they now need to be adjusted to the new definition of value-adding processes:²⁹ *Plan-Catastro* [registry-plan]; control (SISCON); AutoAudit; preliminary determination of liability (SIPRE); liability (SIREs); legal proceedings; and internal audit system. Each system has been developed exclusively for the responsible area and for a limited number of users. The information managed through the systems relates primarily to the planning and monitoring of CGE operational activities, with the exception of AutoAudit, an application for supporting audit work. AutoAudit is used by 42% of the external and internal auditing staff, primarily as a document management system. The Internal Audit Division operates with an independent system that works only in the UIAs, which makes it difficult to integrate internal and external control information. Most of the technologies supporting these systems were developed in house³⁰ and are built on different platforms.³¹ This makes it difficult to integrate data from mission and support processes and complete and integrated information for decision-making purposes.³²

²⁷ [ICAS report](#), 2013.

²⁸ e-SIGEF: Integrated Financial Management System of the Ministry of Finance. Its use is mandatory at all public-sector institutions.

²⁹ See paragraph 1.4, where these processes are described.

³⁰ Only the AutoAudit system was purchased by the institution, with licenses for a total of 400 officials.

³¹ 28% are on a web platform.

³² [List of systems and applications](#), most of them developed in house.

- 1.15 With regard to human talent, the CGE currently has approximately 2,127 officials, of which 961 are audit staff variously based in the head office, regional offices, and decentralized institutions. In recent years, the CGE experienced two flows in relation to human talent: the departure, primarily due to retirement, of technical staff with ample experience in control activities, resulting in a certain loss of expertise; and the entry, through competitive hiring, of new personnel that requires training.³³

Table 1.1. Entry and departure of employees 2010-2013

Entry		Departure		Difference	
Auditors	Officials	Auditors	Officials	Auditors	Officials
273	1,006	84	610	189	396

Source: CGE – Human Talent Division.

- 1.16 The CGE's effectiveness in terms of quality and timeliness could be affected by a growing workload associated with certain external and internal audit activities. For example, in 2012, nine supervisors approved 800 internal audit reports. Yet, there are 3,000 files from external and internal audit reports with a preliminary finding of liability. These files require review by the Liability Division, which has 58 employees, reflecting the need to strengthen the work area. The control of 280,000 annual sworn asset disclosures is done at headquarters and at the provincial offices; headquarters only has eight full-time employees, which reflects the need to increase technical staff for this type of control action. In view of this situation, the CGE has developed a human talent plan aimed at filling a substantial number of vacant positions over the next two years, primarily in value-adding areas related to the generation of external control reports. However, determining the number and background of the total staff required will depend on a review of processes and workload, which is currently under way.
- 1.17 In addition to the aforementioned three major areas of difficulty (processes, information systems, and human talent), the CGE faces other challenges: improving interactions with public-sector managers and society so as to benefit from their contributions toward enhancing the quality and timeliness of control actions. In this regard: (i) the absence of cooperation by public-sector managers in the timely delivery of information needed by the auditors contributes to repeated requests for extensions and to significant delays in preparing the audit reports;³⁴ (ii) citizens submit few substantiated complaints for control actions to be conducted, despite

³³ This could be considered the most significant challenge facing the CGE in terms of improving its control actions. Accordingly, the institution has launched an aggressive training plan. As part of this plan, in the second half of November 2013, all 170 internal audit units in Quito will suspend their activities for a month to allow their staff, many of whom are newly arrived, to undergo training.

³⁴ Reflected in the difference between the scheduled average time from the issuance of a work order to delivery of the final report, which is 38 days, and the time actually elapsed, which is 82% longer.

their participation in public hearings; (iii) coordination between the deconcentrated UIAs and the sector divisions at the head office, as well as between the regional divisions and the provincial offices is done once a year;³⁵ and (iv) according to the analysis performed by the CGE, at least 14 of the 23 provincial offices have physical infrastructure deficiencies in their facilities, severely impairing the performance of their duties.

- 1.18 The Bank has solid experience supporting supreme audit institutions in the region, both at the bilateral level through loan operations³⁶ and technical cooperation operations, and as part of regional initiatives (support for the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS),³⁷ policy dialogues (work groups with OLACEFS and the International Organisation of Supreme Audit Institutions (INTOSAI)),³⁸ and knowledge products. In addition, the Bank has financed similar programs, such as the programs to support Brazil's Auditor General's Office and Peru's Office of the Comptroller General. The principal lessons learned from these operations include the importance of encountering a collaborative attitude on the part of the audited managers in order to enhance the quality and timeliness of the audit reports, and the importance of identifying indicators that can help to measure the control actions. As part of operation ATN/AA-13886-RG,³⁹ the CGE will implement the Superior Audit Institutions Performance Measurement Framework (SAI PMF) on a pilot basis, to generate supplementary information for execution of this operation. The Bank's technical assistance to the CGE incorporates the above-described experience and adds value to this operation.
- 1.19 **Alignment.** This operation is related to one of the objectives pursued by the Bank's country strategy with Ecuador 2012-2017 (document GN-2680) in the fiscal management area, namely to contribute to "enhancing the equity and efficiency of public spending," insofar as it strengthens the control and oversight mechanisms provided for by the Government of Ecuador, in addition to strengthening the use of the country control systems. This operation also contributes to the objectives of: strengthening the control systems as part of supporting the use of country systems

³⁵ To date, neither the deconcentrated offices nor the UIAs use the AutoAudit system, which helps in managing work papers, resources, time, and costs and in performing evaluations and generating integrated reports. Consequently, these offices and units operate in isolation from the head office.

³⁶ BR-0403, UR-L1031, BR-L1223, NI-0160, PE-L1002, and PE-L1132.

³⁷ Among other objectives, OLACEFS seeks to: (i) promote and conduct systematic research studies in the area of control and oversight of public funds management, and disseminate the results; (ii) provide guidance for, organize, and conduct training, specialization, and graduate courses; and (iii) provide advisory and technical assistance services to its members.

³⁸ INTOSAI has provided an institutional framework for transferring and increasing knowledge with a view to improving external public oversight on a global level and thus strengthening the competence of the supreme audit institutions in its member countries.

³⁹ Regional technical-cooperation operation to strengthen transparency in public administration and control.

(document GN-2538); and supporting the general process of civil service decentralization and deconcentration, which is why the Government of Ecuador and the Bank agreed to include it in the 2013 Operational Program Report (document GN-2696). Similarly, the program is consistent with the priorities of the Ninth General Increase in the Resources of the IDB (GCI-9) with respect to lending to small and vulnerable countries and its sector priority of institutions for growth and social welfare, as established in the relevant sector strategy (document GN-2587-2). In addition, the program is consistent with the Action Plan to Support Countries in their Efforts to Fight Corruption and Foster Transparency (document GN-2540).

B. Objective

- 1.20 The objective of the program is to contribute to making the Government of Ecuador's control system more effective by improving the quality, coverage, and timeliness of the Office of the Comptroller General's control of public funds. To this end, the program will include the following three components:⁴⁰
- 1.21 **Component 1. Improvement of control standards, processes, and systems (US\$10,480,000).** The objective of this component is to improve the planning, execution, and application of audit processes on the part of the CGE, by: (i) developing methodologies for updating technical and administrative development standards;⁴¹ (ii) diagnosing, simplifying or eliminating, as the case may be, and automating the CGE's current mission and administrative processes and preparing and updating the relevant regulations; (iii) evaluating and updating the information technology applications supporting mission and administrative processes; (iv) developing and implementing a platform to integrate corporate systems; and (v) developing and implementing a comprehensive quality management system in line with the SAI PMF.
- 1.22 **Component 2. Development of human talent and installed capacity (US\$7,260,000).** The objective is to strengthen the capacity of CGE and UIA officials and improve the physical and technology infrastructure. This component will finance the development and implementation of: (i) a labor force plan (including sizing, analysis of gaps between required and existing human talent profiles, and projections of staff needs); (ii) a human talent management model (including career plan, incentives, and evaluation); (iii) a knowledge management strategy to support the documentation and transfer of institutional information and knowledge; (iv) training in the management of change (coaching); (v) training workshops for personnel at the CGE and deconcentrated offices; (vi) government

⁴⁰ The program's intervention strategy took into account the international good practices proposed by the OECD for modernizing supreme audit institutions (Good Practices in Supporting Supreme Audit Institutions, 2010) as well as the results achieved by similar Bank-financed programs, such as the programs to support Brazil's Auditor General's Office and Peru's Office of the Comptroller General (see the respective PCRs).

⁴¹ INTOSAI recommendations regarding best practices in control processes will be taken into account for such purposes along with the OECD's Good Practices in Supporting Supreme Audit Institutions (2012).

audit training activities for the staff of at least 56 decentralized autonomous government UIAs,⁴² and the launching of new information systems designed to improve the quality of their control actions; and (vii) the adaptation of physical spaces in terms of physical, technology, communications, and mobility infrastructure at the CGE's deconcentrated administrative units (regional and provincial offices).

- 1.23 **Component 3. Improvement of CGE interaction with public-sector managers and citizens (US\$1,960,000).** The objective is to improve the quality and timeliness of CGE control actions based on information provided by public-sector managers and greater interaction with citizens. This component will finance: (i) design of service modules for public-sector manager support, available at the CGE institutional online portal; (ii) interactive training for auditors and managers on the duties of both in the performance of control actions, and training for public officials on the CGE's responsibilities under current legislation; (iii) opinion surveys on the quality and usefulness of CGE services for public-sector managers; (iv) survey on perceived public confidence in the CGE as a result of greater coverage of control actions; (v) awareness campaigns for public-sector managers on the importance and characteristics of control actions; and (vi) design and execution of communication campaigns on the work carried out by the CGE and the importance of citizen participation.

C. Key indicators of the results matrix

- 1.24 **Expected outcomes.** The program's principal expected impact will be improved effectiveness of control actions, as measured by an increase in: (i) implementation of the [recommendations set forth in the audit reports](#); and (ii) the percentage of collected civil penalties. This will result from the following outcomes:
- (i) Improved quality of control actions, as measured by: (a) the percentage of control action reports returned three to six times before they are approved by the director of the relevant administrative unit; (b) the percentage of preliminary findings of liability that are validated; and (c) perception of supervisors on the sufficiency of the information provided by public officials to auditors to prepare reports.
 - (ii) Expanded coverage of control actions, as measured by: (a) percentage of control actions carried out in high-risk entities; and (b) percentage of entities subject to State control audited on an annual basis.
 - (iii) Improved timeliness of control actions, as measured by: (a) average time (days) elapsed from the start of the control action to the final conference; (b) average time (days) elapsed from the final conference

⁴² At present, there are 214 UIAs in a total of 218 municipios and one UIA in each provincial government (23). The program seeks to institutionally strengthen 50 UIAs in municipal governments and six in provincial governments, to be selected by the drawing of lots.

to the Comptroller's approval; and (c) control actions with deadline extensions as a percentage of issued work orders.

- 1.25 The main program beneficiaries will be the general public as a result of greater and better control over public funds; public servants, who will receive more useful and timely audit reports; and CGE officials, whose employment conditions will improve. In addition, 50 municipios and six provincial governments will benefit by seeing their UIAs strengthened through this operation.

D. Economic assessment

- 1.26 The program is expected to be profitable. The program's internal rate of return is estimated to exceed 21%, with a net present value of US\$3.2 million, based on a discount rate of 11%, under a conservative scenario. In addition, the economic assessment included a sensitivity analysis (see [OEL #6a](#) and [#6b](#)).
- 1.27 **Sustainability.** There is a commitment by the CGE to keep the corporate and management systems financed through this program updated and in operation, as well as to provide maintenance on the assets proposed under Component 2, subparagraph (iv).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured as a specific investment loan. The estimated cost of the program is US\$20,650,000, of which US\$20 million will be financed using resources drawn from the Bank's Ordinary Capital and US\$650,000 using local contribution resources. The following table describes the consolidated budget by component, the details of which are shown in the [itemized budget](#). The expenditure categories to be covered by the program include the procurement of goods, services, and consulting services. The financial costs of the local contribution will be covered using fiscal resources.

Table 2.1. Cost of the program (in US\$000)

COMPONENT	Bank	Local contribution	Total
1. Improvement of control standards, processes, and systems	10,480	0	10,480
2. Development of human talent and installed capacity	7,260	0	7,260
3. Improvement of CGE interaction with public-sector managers and citizens	1,960	0	1,960
Program administration	300	650	950
Support for program administration and implementation		550	550
Audits		100	100
Evaluations	300		300 ⁴³
Total	20,000	650	20,650⁴⁴

B. Fiduciary risks and mitigating actions

- 2.2 The program is considered of medium risk. As part of the operation's design, a management exercise was conducted pursuant to the Bank's methodology, with the participation of the entities involved. The program's [matrixes to record, evaluate, and mitigate program risks](#) contain a detailed analysis of program risks and the respective mitigation plan (to be reviewed on an annual basis). This exercise identified a fiduciary risk in the form of a potential failure to comply with contractual requirements resulting in execution delays and affecting the scope of the program, due to: (i) lack of familiarity with Bank procurement policies, leading to a failure to comply with certain terms and conditions of the loan contract; and (ii) the CGE's lack of experience in executing Bank-financed projects. To mitigate this risk, it was recommended to: create a management team with experience in the execution of this type of project; prepare program Operating Regulations that identify procedures in detail; and provide controls and continuous training of fiduciary specialists.

C. Environmental and social risks

- 2.3 Pursuant to the Environment and Safeguards Compliance Policy (OP-703), there are no significant environmental or social risks associated with the activities proposed for this operation. Accordingly, it has been classified as a Category C operation.
- 2.4 **Other risks.** Two risks considered high were identified, along with two considered medium, and two considered low. The high risks are: (i) potential resistance to change on the part of the staff with regard to policies, technologies, and new

⁴³ In addition to this US\$300,000, there is a further US\$450,000 for conducting surveys of managers and citizens, which is also included in the budget for Component 3.

⁴⁴ The VAT on procurement financed by this operation will, as in all loan operations with the Republic of Ecuador, be covered by the budget resources of the beneficiary institution (in this case, the CGE), without affecting the local counterpart.

processes, to be mitigated through: a resolution by the Comptroller providing for implementation of the new processes and technologies, and implementation of a change management plan that includes explaining and publicizing the new procedures and providing intensive training in those procedures; and (ii) high turnover of technical staff, with impact on implementation of the new processes and technologies, to be mitigated through: a succession and knowledge management plan, design and implementation of an alternative incentives plan, and a staff induction plan. Actions to mitigate these risks have been included as part of the activities to be financed by this operation.

III. EXECUTION AND MANAGEMENT PLAN

A. Summary of agreed-upon execution arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Ecuador and the executing agency will be the CGE.
- 3.2 The CGE will be responsible for technical and financial administration and, to this end, will be supported by a management team that will be comprised of suitable professionals with pertinent experience in the execution of this type of program. In turn, the administrative units of the CGE will support the management team in the fulfillment of its responsibilities, including progress reports, annual work plan (AWP), program execution plan, and audit and evaluation reports.
- 3.3 In addition, the management team will prepare cash flow projections, the respective requests, and supporting documentation on the use of funds. Furthermore, the management team will perform the required controls to ensure appropriate and transparent use of the funds placed under its responsibility. To this end, the management team will include, at least, a general program coordinator/director, a financial management specialist, a procurement specialist, and a planning and monitoring specialist. The execution arrangements set forth in this paragraph will be described in detail in the program's Operating Regulations.
- 3.4 An institutional capacity assessment of the CGE as executing agency was conducted on the basis of the Bank's [Institutional Capacity Assessment System](#). The final outcome of this assessment suggests that the CGE is capable of executing the program.⁴⁵ The [fiduciary agreements and requirements](#) establish the framework for financial management and planning and procurement supervision and execution that will be used in executing the program. The program's Operating Regulations will establish duties and responsibilities in the coordination process, the technical and financial supervision structure, and the minimum frequency and content of monitoring reports.

⁴⁵ See [Institutional Assessment Report on the Office of the Comptroller General](#) (CGE), Alicia Ruales M. 2013.

- 3.5 Program activities will be carried out pursuant to a schedule established in the [multiyear execution plan](#), which itemizes the execution of the entire program. The annual review of this plan will be set forth in the respective AWP. The PEP will be modified each year based on the program's actual progress. The annual PEP and AWP reviews will be forwarded to the Bank for approval.
- 3.6 **Procurement of works, goods, and nonconsulting services and contracting of consulting services.** Procurement fully or partially financed with Bank resources will be carried out in accordance with the Policies for the procurement of goods and works financed by the Bank (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the Bank (document GN-2350-9). The [procurement plan](#) contains a detailed description of the procurement to be implemented during program execution.
- 3.7 **Audits.** External audit services for the program will be provided as set forth in the fiduciary agreements and requirements. Within 120 days following the end of each fiscal year, the management team will present the program's annual audited financial statements to the Bank. The final audited financial statement will be presented within 120 days following the scheduled date of the final disbursement under the program.
- 3.8 **Contractual conditions precedent to the first disbursement: The executing agency will present evidence that: (i) the borrower and the executing agency have signed an agreement to transfer the loan proceeds and execute the program activities, and that this agreement is in effect; (ii) the executing agency has engaged a general coordinator for the program; and (iii) the executing agency has approved the program's Operating Regulations with the Bank's prior no objection.**
- B. Summary of program monitoring and evaluation agreements**
- 3.9 **Monitoring by the executing agency.** To monitor the program, the executing agency will use the following documents: (i) the Results Matrix; (ii) the [PEP](#); (iii) the [monitoring and evaluation arrangements](#); (iv) the [procurement plan](#); (v) the [program risk](#) and [risk assessment and mitigation matrixes](#); and (vi) the [program disbursement plan](#). The CGE management team will prepare consolidated semiannual progress reports for review by the Bank.
- 3.10 **Monitoring by the Bank.** The Bank will conduct management missions or inspection visits, depending on the importance and complexity of program execution, pursuant to the schedule set forth in the PEP, which identifies the times at which technical supervision by the Bank is deemed necessary. The Bank agrees that the executing agency will use the PMR.
- 3.11 In addition, there will be yearly meetings between the executing agency and the Bank to discuss: (i) progress made on the activities identified in the AWP; (ii) the level of achievement of the indicators set forth in the results matrix; (iii) the AWP for the following year; and (iv) the procurement plan for the following 12 months

and potential budget modifications by component. The executing agency undertakes to maintain a program monitoring and evaluation system, based on which the agency will prepare the reports and data to be provided to the Bank. The management team will include a specialist responsible for planning and monitoring its activities.

- 3.12 **Evaluation.** Achievement of the outcome and impact targets set forth in the results matrix will be verified through midterm, final, ex-post cost-benefit, and impact evaluations. The midterm evaluation will be performed when 40% of the loan proceeds have been disbursed or when two years and six months have elapsed since the effective date of the loan contract, whichever occurs sooner. The final evaluation will be performed when 90% of the loan proceeds have been disbursed. The [monitoring and evaluation arrangements](#) provide more details regarding the evaluations.
- 3.13 The monitoring and evaluation actions have a budget of US\$750,000, to be used to finance the midterm, final, economic, and impact evaluations as well as the surveys described in Component 3.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	Lending to small and vulnerable countries.			
Regional Development Goals				
Bank Output Contribution (as defined in Results Framework of IDB-9)				
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2680	i) Greater quality and efficiency of the Office of the Comptroller General (CGE) in the management of external auditors for Bank-financed projects, and ii) Greater quality and efficiency in management of the internal audit function of the CGE for evaluation and monitoring of the internal control system of executing agencies.		
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		8.4		10
3. Evidence-based Assessment & Solution		8.4	33.33%	10
4. Ex ante Economic Analysis		8.5	33.33%	10
5. Monitoring and Evaluation		8.2	33.33%	10
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		C		
IV. IDB's Role - Additionality				
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Financial Management: i) Budget, and ii) Accounting and reporting.	
The project uses another country system different from the ones above for implementing the program				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project				
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

The document states that main problem to be addressed is the low effectiveness of the control system in the Ecuadorian public administration, defining as "effectiveness" the degree to which audited agencies have complied with the recommendations issued by the Comptroller General (CGE). As evidence of this problem, it is illustrated that while in countries with similar institutional structure such as Peru, 42% of institutions comply with External Control recommendations, and in developed countries this percentage ranges from 60% to 75%. In Ecuador only 23% of the recommendations made by the CGE have been implemented within three years of their issuance.

This low efficiency is due, according to the diagnosis, to poor quality recommendations (80% of reports returned, 66% of reports with incomplete information), to low CGE coverage and recommendations are not timely. This challenges are due to shortcomings in the processes and information systems and human resource limitations.

In keeping with the diagnosis a three component intervention is proposed: i) Improvement of standards, processes and information systems, ii) Human Resource Development and capacity, and iii) Improved CGE interaction with public managers and citizens.

The results matrix has articulated well the logic of intervention: better regulation and standardization of processes, implementation of new information systems, training and campaigns (products), lead to better quality of the actions of control, greater coverage and timeliness (results), which in turn result in that recommendations are actually implemented (Impact level of effectiveness). However, not all the indicators are Result-level SMART.

The economic analysis is based on the estimated economic losses avoided by the control actions (reduction of irregularities and resource recovery). The Monitoring and Evaluation Plan proposes an ex post Cost Benefit analysis and an impact evaluation.

RESULTS MATRIX

The objective of the program is to make the Government of Ecuador's control system more effective by improving the quality,¹ coverage, and timeliness of the Office of the Comptroller General's control of public funds.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year		
EXPECTED IMPACT: Effectiveness of control actions enhanced							
Control action recommendations implemented by public entities	%	23	2010-2013	45	2013-2016	Reports by control units – Consolidated by CGE’s Institutional Planning and Assessment Coordination Unit (CPEI)	Percentage implementation, as of the assessment year (k), of recommendations issued three years before (k-3). Baseline: of the 910 recommendations issued by the Development and Social Inclusion Auditing Division, the Production, Environment, and Finance Division, the Sectional Development and Social Security Division, and the Projects and Environment Division in 2010, 216 recommendations have been implemented as of 2013 (23%). Formula: <i># recommendations issued in k-3 and implemented as of k / # recommendations issued in k-3</i>
Administrative penalties determined and collected in a fiscal period	%	39	2012	60	2017	Report prepared by the Liability Department	Number of administrative penalties determined and collected in year t / administrative penalties determined in the same period. The 2012 percentage stems from the 239 resolutions imposing administrative penalties that were collected (US\$217,029.49) out of a total of 612 such resolutions. Under the Office of the Comptroller General Act, administrative penalties are applicable to dignitaries, authorities, public officials, and other public servants at State institutions who have incurred in one or more grounds for fault-based administrative liability stemming from the results of the audits. The fine amount, depending on the seriousness of the violation, is equal to one to ten basic salaries of the dignitary, authority, official, or public servant in question, who may also be removed from office. The criteria used to determine the applicable penalty are: the public servant’s act or failure to act; the public servant’s rank; the seriousness of the violation; the performance inefficiency based on the importance of the interest being protected; the volume and significance of the compromised resources; whether this is a first-time or a repeated offense. Resolutions imposing penalties or removal from office due to administrative violations are deemed final and enforceable following administrative proceedings. (Article 23, Agreement on Liability).

¹ Understood as consistency of information in audit reports.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Interim measurements		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Quality of control actions improved									
Return of control action reports prior to their approval by the director of the relevant administrative unit	%	20	2012	15	2015	10	2017	Survey of quality supervisors conducted by the CGE (Planning Coordination Unit)	Control reports returned three to six times to the audit team by internal supervisors so that errors may be corrected. Number of reports returned three to six times / Total number of reports submitted for review. Refers to the approval process, from the date the report is delivered by the audit team to the date it is sent to the control unit director for approval. Under the Office of the Comptroller General Act, the time frame from the issuance of a work order for an audit to the audit report's approval should as a general rule not exceed one year. See optional link 10
Percentage of preliminary findings of liability validated	%	21	2012	27	2014	35	2017	Liability Department	Number of preliminary findings of liability validated by the Liability Division, divided by the total number of preliminary findings of liability. These refer to findings involving a potential act attributable to a public official. In 2012, 6,502 preliminary determinations of liability were submitted and 1,355 validated preliminary determination resolutions were issued.
Perception of supervisors regarding the sufficiency of information provided by public officials to auditors for drawing up reports	%	66	2013	60	2014	50	2017	Survey of quality supervisors conducted by the CGE (Planning Coordination Unit)	CGE supervisors estimated that the main factor (66%) affecting the quality of reports is insufficient information provided to auditors by public officials at the audited entities. In this case, sufficient information is understood to mean that the information required by the auditor is provided in its entirety. See optional link 11

Indicators	Unit of measure	Baseline		Interim measurements		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 2: Coverage of control actions expanded									
Control actions carried out at high-risk entities	%	78	2012			100	2017	Reports prepared by the CGE's CPEI	Ratio of audited entities rated as high-risk to the total number of high-risk entities in a specific period. A high-risk rating is based on the following variables: percentage of accrued budget, level of conflict (complaints), expiration (seven years), and strategic area of intervention for the State. In 2012, the risk management system succeeded in identifying only nine high-risk entities, apparently significantly underestimating the actual total. This operation will support the strengthening of this system (among others), making it possible to arrive at a more realistic universe; as a result, the current baseline will be modified.
Entities subject to State control audited annually	%	18	2012	32	2014	38	2017	Reports prepared by the CGE's CPEI	In 2012, there were 6,241 entities subject to CGE control, and control actions were conducted with respect to 1,128 of these entities.
EXPECTED OUTCOME 3: Timeliness of control actions improved									
Average time elapsed between the start of a control action and the final conference.	Business days	69	2011/2012	62	2014	55	2017	Reports prepared by the CGE's CPEI	Time elapsed between issuance of the work order and the final conference
Average time elapsed between the final conference and approval by the Comptroller	Business days	68	2011/2012	62	2014	55	2017	Reports prepared by the CGE's CPEI	Time elapsed between the final conference and approval of the report by the Comptroller and remittance of the report to the audited unit for purposes of implementing recommendations
Control actions with deadline extensions in relation to work orders issued in the course of a year	%	36	2012	32	2014	25	2017	Reports prepared by the CGE's CPEI	Number of work orders with deadline extensions / number of work orders. The information yields 93 requests for extensions out of 259 work orders issued by the CGE head office in 2012.

OUTPUTS

Output	Estimated total cost per output (US\$)	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Final target	Source/ Means of verification
Component 1: Improvement of control standards, processes, and systems									
1.1 Methodologies for updating technical and administrative development standards formulated	200,000	Methodologies	0	2				2	Standards and Administrative Development Division
1.2 Mission processes surveyed, standardized, optimized, and regulated	2,000,000	Processes	0	2	3	3		8	Regulations and Administrative Development Division
1.3 Administrative support processes surveyed, standardized, optimized, and regulated	1,500,000	Processes	0	2	3	1		6	Regulations and Administrative Development Division Process Area
1.4 Platform (hardware and software) developed for integrating corporate systems	2,000,000	Platform	0		1			1	Information and Communications Technology Division
1.5 Computer applications supporting mission and administrative processes evaluated and updated	3,780,000	Systems	0	14	35	5		54	Information and Communications Technology Division
1.6 Quality management system aligned with SAI PMF designed, implemented, and regulated	1,000,000	Systems	0			1		1	Information and Communications Technology Division
Component 2: Development of human talent and installed capacity									
2.1 Labor force plan developed and implemented	500,000	Plan	0			1		1	Human Talent Division
2.2 Human talent management model designed and implemented (includes career plan, incentives, and evaluation)	350,000	Management model	0				1	1	Human Talent Division
2.3 Knowledge management strategy developed and implemented	400,000	Strategy	0				1	1	Human Talent Division
2.4 Change management events (coaching) carried out for CGE officials aimed at encouraging fulfillment of the institutional mission and vision	420,000	Events	0	1	3	3	1	8	Institutional Communications, Human Talent, and Training Divisions
2.5 Training workshops conducted with CGE personnel to strengthen competencies	720,000	Events	0	2	2	2	1	7	Training Division and Human Talent Division

Output	Estimated total cost per output (US\$)	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Final target	Source/ Means of verification
2.6 Internal audit units at decentralized autonomous governments trained in government audits	1,320,000	IAUs	0	4	18	18	16	56 ²	Internal Audit Division and Administrative Division
2.7 Regional and provincial offices outfitted and equipped to conduct control actions	3,550,000	Space	0	3	7	8	5	23	Administrative Division and TICs
Component 3: Improvement of CGE interaction with public-sector managers and citizens									
3.1 Service modules to support public-sector managers designed and available at the institutional online portal	360,000	Support services	0	6	2			8	Institutional Communications Division
3.2 Interactive training workshops with the participation of auditors and managers carried out	330,000	Workshops		1	4	5	1	11	Training Division
3.3 Opinion surveys of public-sector managers conducted	280,000	Surveys	0	1	1	1	1	4	Institutional Communications Division
3.4 Awareness campaigns for public servants conducted on the importance of control actions	400,000	Campaigns	0	1	1	1	1	4	Institutional Communications Division
3.5 Survey on perceived public confidence in the CGE carried out	170,000	Survey	0	1			1	2	Institutional Communications Division
3.6 Communication campaigns carried out on the work performed by the CGE	420,000	Campaigns	0		1	1	1	3	Institutional Communications Division
SUBTOTAL Components 1, 2, and 3	19,700,000								
4.1 Technical assistance for program management	550,000								
4.2 Audits	100,000								
4.3 Midterm, final, and ex post cost-benefit evaluations	300,000								
SUBTOTAL Program administration	950,000								
ESTIMATED PROGRAM TOTAL	20,650,000								

² 50 are at municipal governments and six are at provincial governments, to be selected by the drawing of lots among 214 municipios and 23 provinces.

ANNUALIZED COST PER OUTPUT (IN US \$)

Output	Estimated total cost per output (US\$)	Baseline 2013	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017
Component 1: Improvement of control standards, processes, and systems						
1.1 Methodologies for updating technical and administrative development standards formulated	200,000	0	200,000			
1.2 Mission processes surveyed, standardized, optimized, and regulated	2,000,000	0	254,167	1,087,500	658,333	
1.3 Administrative support processes surveyed, standardized, optimized, and regulated	1,500,000	0	237,500	1,087,500	175,000	
1.4 Platform (hardware and software) developed for integrating corporate systems	2,000,000	0		2,000,000		
1.5 Computer applications supporting mission and administrative processes evaluated and updated	3,780,000	0	403,200	3,288,600	88,200	
1.6 Quality management system aligned with SAI PMF designed, implemented, and regulated	1,000,000	0			1,000,000	
Component 2: Development of human talent and installed capacity						
2.1 Labor force plan developed and implemented	500,000	0			500,000	
2.2 Human talent management model designed and implemented (includes career plan, incentives, and evaluation)	350,000	0				350,000
2.3 Knowledge management strategy developed and implemented	400,000	0				400,000
2.4 Change management events (coaching) carried out for CGE officials aimed at encouraging fulfillment of the institutional mission and vision	420,000	0	58,200	156,600	156,600	48,600
2.5 Training workshops conducted with CGE personnel to strengthen competencies	720,000	0	153,750	195,750	195,750	174,750
2.6 Internal audit units at decentralized autonomous governments trained in government audits	1,320,000	0	270,875	358,875	358,875	331,375
2.7 Regional and provincial offices outfitted and equipped to conduct control actions	3,550,000	0	300,764	1,286,875	1,286,875	675,486
Component 3: Improvement of CGE interaction with public-sector managers and citizens						
3.1 Service modules to support public-sector managers designed and available at the institutional online portal	360,000	0	314,000	46,000		
3.2 Interactive training workshops with the participation of auditors and managers carried out.	330,000		45,729	123,043	123,043	38,185
3.3 Opinion surveys of public-sector managers conducted	280,000	0	53,870	79,435	79,435	67,260
3.4 Awareness campaigns for public servants conducted on the importance of control actions	400,000	0	98,500	130,500	130,500	40,500
3.5 Survey on perceived public confidence in the CGE carried out	170,000	0	85,000			85,000

Output	Estimated total cost per output (US\$)	Baseline 2013	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017
3.6 Communication campaigns carried out on the work performed by the CGE	420,000	0		173,250	228,375	18,375
SUBTOTAL Components 1, 2, and 3	19,700,000	0	2,475,555	10,013,928	4,980,986	2,229,531
4.1 Technical assistance for program management	550,000	0	140,015	141,643	141,643	126,699
4.2 Audits	100,000	0				100,000
4.3 Midterm, final, and ex post cost-benefit evaluations	300,000	0			100,000	200,000
SUBTOTAL Program administration	950,000	0	140,015	141,643	241,643	426,699
ESTIMATED PROGRAM TOTAL	20,650,000	0	2,615,570	10,155,571	5,222,629	2,656,230

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country and project number: Ecuador/EC-L1119

Name: Program to Improve the Control Function of the Office of the Comptroller General of the Nation

Executing agency: Contraloría General del Estado [Office of the Comptroller General of the Nation] (CGE)

Prepared by: Gumersindo Velázquez and Gustavo Palmerio (FMP/CEC)

I. EXECUTIVE SUMMARY

- 1.1 These fiduciary agreements and requirements for execution of the program are based on: (1) the fiduciary context of the country; (2) the results of a fiduciary risk assessment; (3) a capacity assessment performed on the CGE; and (4) work meetings with the project team and personnel from the various areas of the CGE.

II. FIDUCIARY CONTEXT OF THE COUNTRY

- 2.1 Procurement system: The national public procurement system (SNCP) was approved in August 2008 through the SNCP Act, which provides for creation of the National Public Procurement Institute (INCOP) as the lead agency for public procurement. With Bank support, INCOP conducted a diagnostic assessment of SNCP using the methodology of the Organization for Economic Cooperation and Development's Development Assistance Committee. It found that the SNCP was at an advanced level of development. In February 2013, the Bank approved the use of the SNCP for procurement below the threshold for international competitive bidding. In order to implement this system, an action plan to address certain activities resulting from the diagnostic assessment must be presented along with an agreement on the list of pilot projects, and the agreement between the parties must be signed.
- 2.2 Financial management system. Since January 2008, government entities have been using the financial management system known as e-SIGEF, which effectively integrates systems for budgeting, accounting, treasury, electronic payments, and a centralized Web-enabled information technology mechanism. The entities of the central government are subject to the control and supervision of the supreme audit institution, which is the Office of the Comptroller General. In general terms, country financial management systems are at an adequate stage of development but need to be supplemented at this time for the purposes of

executing Bank-financed projects, in the area of specific financial reporting and external auditing (to be conducted by a firm acceptable to the Bank).

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 3.1 As set forth in the Ecuadorian Constitution, the CGE is a technical agency with separate legal status and administrative, financial, budget, and organizational autonomy. Its primary role is to control the use of public funds and the attainment of the objectives of State institutions and legal entities that are subject to private law and use public funds. In addition, the CGE directs the administrative control system composed of internal audits, external audits, and internal control of entities under its authority. Moreover, the CGE makes determinations on fault-based administrative and civil liabilities and indications of criminal liability in connection with issues and procedures subject to its control.
- 3.2 The CGE will execute the program through a management team that will be created specifically to execute this operation. The management team will be responsible for coordinating the financial and administrative procedures associated with the program, such as budgets, treasury, general accounting, and reporting.
- 3.3 As part of the operation's preparation and design, an ICAS-based institutional capacity assessment was performed on the CGE, focusing on the internal areas and processes likely to have the greatest impact on program execution. This assessment yielded an overall risk rating of medium, indicating that the aspects most in need of strengthening are those related to the institution's lack of experience in the execution of Bank-financed projects.
- 3.4 The CGE uses country procurement and financial management systems. Internal control of the CGE is performed by an internal audit unit that forms an integral part of the institution.

IV. FIDUCIARY RISK ASSESSMENT AND MITIGATION MEASURES

- 4.1 The fiduciary risks included in the relevant risk matrix were identified on the basis of the available information on the program and workshops and work meetings with CGE staff. The most significant such risks are the following:
 - a. **Potential breach of contractual terms and conditions due to lack of familiarity with Bank policies and lack of experience on the part of CGE staff in executing operations with the Bank.** Factors: Executing agency lacking experience in the execution of Bank-financed projects. Lack of familiarity with Bank policies and guidelines. Impact: Execution delays. Ineligibility of incurred expenditures and noncompliance with contractual conditions. Mitigating actions: (i) Create a management team comprised of qualified professionals who have the Bank's no objection. (ii) Prepare program Operating Regulations identifying all execution procedures, requirements, and

internal control arrangements in detail. (iii) Continuous support, training, and monitoring of execution by the Bank's fiduciary team.

V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS

- 5.1 Some points to be considered: (i) appointment of a management team comprised of qualified professionals who have the Bank's no objection; and (ii) CGE approval of the program's Operating Regulations with the Bank's agreement.

VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

6.1 Procurement execution

- a. **Procurement of works, goods, and nonconsulting services.** The procurement of works, goods, and nonconsulting services¹ generated under the program will be included in the initial procurement plan and, if subject to international competitive bidding (ICB), will be executed using the standard bidding documents (SBDs) issued by the Bank. The program's sector specialist will be responsible for reviewing the technical specifications for procurement during the preparation stage of the selection processes. To strengthen the planning of procurement-related activities, the executing agency is expected to use the online Procurement Plan Execution System (SEPA). The procurement plan will cover the first 18 months and will be updated on an annual basis or when required using the SEPA.
- b. **Selection and contracting of consultants:** Consulting services generated under the program will be included in the initial procurement plan and will be executed using Standard Requests for Proposals (SRFPs) issued by the Bank. The program's sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. Each executing agency area requiring consulting services will be responsible for determining the technical feasibility of the terms of reference, while the unit in charge of process management will verify their consistency with the SRFP. In addition, when applying its own methods for selection and contracting of consulting services, the executing agency will use the SEPA for process planning and administration purposes. For consulting services with an estimated budget of up to US\$200,000, the executing agency will encourage the use of the selection method based on consultants' qualifications (CQS), as provided in paragraph 3.7 of the Policies.
- c. **Selection of individual consultants.** In the cases identified in the approved procurement plans, individual consultants may be solicited by means of local or international announcements with a view to creating a shortlist of qualified

¹ Policies for the procurement of goods and works financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

individuals, pursuant to Section V, paragraphs 5.1 to 5.4, of document GN-2350-9.

- d. Training: The procurement plan describes the procurement processes applicable to program components that include training, which is contracted as consulting and nonconsulting services.
- e. Advance procurement/ Retroactive financing: No retroactive financing is anticipated.

Table of threshold amounts (U.S. dollars)

Works			Goods			Consulting services	
International competitive bidding	National competitive bidding	Shopping	Inter-national competitive bidding	National competitive bidding	Shopping	International advertising	Short list 100% national
≥ 3,000,000	< 3,000,000 ≥ 250,000	< 250,000	≥ 250,000	< 250,000 ≥ 50,000	< 50,000	> 200,000	< 200,000

Main procurement processes

Activity	Type of bidding	Estimated date	Estimated amount (US\$000)
1.- GOODS			
Procurement of a platform, including hardware and software, to integrate the corporate systems.	ICB	08/10/2014	2,000
2.- NONCONSULTING SERVICES			
Contracting of change management services (coaching) for CGE officials to encourage fulfillment of the institutional mission and vision.	ICB	25/12/2014	320
Contracting of awareness campaign services for public servants regarding the importance of control actions.	ICB	01/4/2014	600
3.- CONSULTING SERVICES			
Surveying, standardization, and optimization of mission processes and updating of their regulatory framework.	QCBS	09/9/2014	2,000
Surveying, standardization, and optimization of support processes and updating of their regulatory framework.	QCBS	09/9/2014	1,500
Assessment and updating of information systems supporting mission and administrative processes.	QCBS	08/8/2014	3,780
Design and implementation of a quality management system aligned with the SAI PMF and development of the corresponding standards.	QCBS	12/5/2015	1,000
Development and implementation of a CGE labor force plan.	QCBS	26/1/2016	500

- 6.2 **Procurement supervision.** Contracts subject to ex post review by the Bank will be those included in the following table and will be executed in accordance with Appendix 1 of the respective policies. When involving amounts equal to or exceeding those included in the aforementioned table, such procurement will be

supervised on an ex ante basis. The Bank will conduct ex post review visits at least once every 12 months. It is important to clarify that at least 10% of the reviewed contracts will be physically inspected in the course of the program.

Works	Goods	Consulting services	Individual consulting
< 3,000,000	< 250,000	< 200,000	< 50,000

Note: The threshold amounts established for ex post review are based on the fiduciary execution capacity of the executing agency and may be modified by the Bank in the event that such capacity changes.

- 6.3 **Special provisions.** Measures to reduce the likelihood of corruption: See the prohibited practices provisions of documents GN-2349-9 and GN-2350-9.
- 6.4 **Records and files.** The documents for the procurement processes will be housed at the CGE offices. The executing agency will keep duly organized, classified, and updated records and files of all documentation associated with procurement processes for ex post review purposes.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** The legislation that sets forth the general rules governing budget programming, formulation, approval, execution, control, evaluation, and disbursement is the Organic Code of Public Planning and Finance. These rules are applicable to the execution of Bank-financed projects in Ecuador through the integrated e-SIGEF, which implements and standardizes the application of these rules throughout the national public management apparatus. The program's budget will be based on the annual work plan (AWP) agreed upon by the Bank and the executing agency, and will serve as a basis for its formal inclusion in the general CGE budget submitted for legislative approval as part of the pro forma budget. The CGE will process the program disbursements and budget allocations and will control the budgetary execution every four months through its internal systems.
- 7.2 **Accounting and information systems.** Government accounting is performed through e-SIGEF, which was customized in line with the government chart of accounts issued by the Ministry of Finance. The official accounting for Bank-financed projects is carried out through e-SIGEF pursuant to the government chart of accounts and the budget classifier. At present, preparing reports related to specific aspects of the resources provided by the Bank is not possible through e-SIGEF; consequently, information on the status and progress of a project is disclosed through separate reports. It was agreed with the executing agency that, for this loan operation, a tool must be implemented that makes it possible to prepare financial and other reports on the program in execution.
- 7.3 **Disbursements and cash flow.** In 2008, Ecuador launched a General Treasury Account (CUT) mechanism, merging the treasury management function of all

- central government entities. Implementation of this mechanism did not eliminate the system of special, or special-purpose, accounts, which are maintained at the Central Bank of Ecuador (BCE) exclusively for purposes of receiving funds from multilateral loans. To receive the proceeds of the present loan, the CGE will open an account of record at the BCE solely for program use, and all payments under the program will be executed through the e-SIGEF system by debiting the CUT.
- 7.4 Disbursements will be made in the form of advances of funds based on the actual liquidity needs of the program, pursuant to a detailed financial plan that reflects the program's actual needs for resources for a period of six months. The financial plan is to be prepared at the start of the program and updated in accordance with progress made on program execution.
- 7.5 The executing agency will submit disbursement requests to the Bank along with the program's financial plan and cash flow projections for the following 180 days, as well as a reconciliation of available program funds. Financial reporting related to advances of funds will be carried out in accordance with the "Financial management policy for IDB-financed projects" (OP-273-2). Disbursements will be accounted for in the following disbursement request, once 80% or more of the advanced funds have been executed.
- 7.6 The support documents for incurred expenditures will be reviewed on an ex post basis following Bank disbursement of the proceeds. This disbursement review will be conducted by Bank staff and/or external auditors. Any expenditure not considered eligible for the program pursuant to these reports will be reimbursed using local contribution resources.
- 7.7 **Internal control and internal audit.** With regard to internal control systems, the Ecuadorian Constitution provides that the CGE is the agency responsible for directing the public-sector control system. As the lead agency and as a constituent part of this sector, the CGE has its own institutional internal audit area. However, at first the Bank will not use its services, since the area's audit plans do not include a review of the program.
- 7.8 The Operating Regulations will include the main internal control processes needed to ensure that the controls are working properly.
- 7.9 **External control and reports.** As lead agency of the public-sector internal and external control system, the CGE is not subject to external audits. Consequently, the program's external audits will be performed by first-tier independent auditors acceptable to the Bank (international auditing firms), in accordance with Bank requirements.
- 7.10 During program execution, the CGE will annually present the program's financial statements and expense eligibility reports audited in accordance with Bank guidelines and based on terms of reference previously approved by the Bank. The financial statements will be sent to the Bank no later than four months following the end of each fiscal year. The costs of the audits will be covered by local contribution resources.

7.11 Pursuant to the access to information policy currently in effect, the audited program reports must be published in the Bank systems.

Supervision activity	Fiduciary supervision plan			
	Nature and scope	Frequency	Responsible entity	
			Bank	Third party
OPERATIONAL	Review of Progress Report	SEMIANNUAL	Fiduciary and sector team	
	Portfolio review with the executing agency	In accordance with Ministry of Finance requirements	Fiduciary and sector team	Ministry of Finance
FINANCIAL	Inspection visits	SEMIANNUAL	Fiduciary specialist	
	Financial audit	ANNUAL	Fiduciary specialist	Executing agency
	Ex post review of disbursements	ANNUAL	Fiduciary specialist	
	Review of disbursement requests	With each disbursement	Fiduciary team	
PROCUREMENT	Ex ante review of procurement	During program execution	Project Team Leader/ with support from the procurement specialist	Executing agency
	Updating of procurement plan	ANNUAL	Project Team Leader/ with support from the procurement specialist	Executing agency
COMPLIANCE	Fulfillment of conditions precedent	ONCE	Fiduciary specialist	Executing agency
	Budget allocation	ANNUAL	Fiduciary specialist	Executing agency
	Presentation of audited financial statements	ANNUAL	Fiduciary specialist	Executing agency

7.12 **Execution arrangements.** The borrower will be the Republic of Ecuador. The CGE will be the program executing agency, for which purpose it will create a management team, which will work exclusively on program execution. It is recommended that the management team consist of a general coordinator, a financial specialist, a procurement specialist, and a planning and monitoring specialist.

7.13 The management team will be supported by the CGE administrative units based on its own management system, and will be responsible for exercising technical leadership for the program vis-à-vis the Bank. This encompasses coordinating and preparing all the information to be presented, including progress reports, annual work plan (AWP), program execution plan (PEP), and audit and evaluation reports.

- 7.14 The Operating Regulations will describe the makeup, roles, and responsibilities of the management team, as well as set forth in detail the program execution arrangements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/____

Ecuador. Loan _____/OC-EC to the Republic of Ecuador
Program to Improve the Control Function of the Office
of the Comptroller General of the Nation

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Ecuador, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program to improve the control function of the Office of the Comptroller General of the Nation. Such financing will be for an amount of up to US\$20,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Approved on _____, 201_)

LEG/SGO/EC/IDBDOCS#38233103
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