

GOVERNMENT OF PAKISTAN
INTEGRATED FLOOD RESILIENCE AND ADAPTATION PROJECT (IFRAP)

Terms of Reference and Scope of Services

HIRING OF FIRM FOR INTERNAL AUDIT

1. Background

Balochistan has been disproportionately affected by the 2022 floods. The floods have exacerbated the socio-economic challenges in the province, pushing the multidimensional poverty rate to 81.1 percent from 70.2 percent. Agriculture, the backbone of Balochistan's economy, is the hardest-hit sector is agriculture. Agriculture makes up 52 percent of the provincial GDP and 67 percent of the labor force. The floods caused over 500,000 livestock casualties (63 percent of the national total), amounting to production losses of PKR 79,619 million. Livestock losses have negatively impacted livelihoods (70 percent of households depend on livestock for their livelihoods and income). In addition, the harvest failure due to the floods during the "Kharif" season resulted in production losses amounting to nearly US\$2 billion, compromising livelihoods and food security. Since June, pre-flood flood commodity prices have significantly increased, with Balochistan reporting the country's highest food insecurity at 23.4 percent. The damage to 586 primary health facilities in Balochistan (305 fully damaged, 282 partial) has further disrupted essential health services. As a result, the province currently has the highest proportion of people (59 percent) who lack access to health facilities. In addition, a multisectoral rapid needs assessment (RNA) conducted in 515 villages across ten districts of Balochistan found that approximately 2,000 classrooms have been damaged and destroyed, the recovery of which will cost over PKR 24.4 million.

Balochistan experienced widespread damage to critical infrastructures, especially housing, transport and communications, WASH, and community-level facilities. Specifically, the floods have caused damage to more than 190,000 housing units across the province, including close to 69,000 units destroyed and more than 120,000 partially damaged. Infrastructure damage has caused the temporary isolation of most of Balochistan, with 2,222km of roads and 43 bridges damaged, impeding people's ability to access healthcare, food markets, and other vital services and restricting the delivery of aid to people who need it. Across the province, 456 flood protection/irrigation schemes were partially damaged or destroyed, including 367 water supply and 89 sanitation schemes.

Overall, the National PDNA report prepared by Ministry of Planning, Development and Special Initiatives (MoPDSI) in close coordination with all provinces indicates that Balochistan requires PKR 491 billion (US\$2.3 billion) for recovery and reconstruction over the next 5 to 7 years. This estimate does not include investments to strengthen Balochistan's overall resilience to future climate shocks. The Post Disaster Needs Assessment (PDNA) and Resilient Recovery, Rehabilitation, and Reconstruction Framework (4RF) suggest that cross-sector

recovery requires both short- and medium-term reconstruction and rehabilitation as well as long-term critical reforms to address resilience and to build back better. Against this backdrop, the GoP has requested the World Bank to urgently support the immediate needs of Balochistan for flood recovery and reconstruction in core socioeconomic sectors to help restore livelihoods and essential services, including housing, WASH, transport, agriculture, and irrigation, while building a foundation for long-term flood resilience through strengthening institutions and information (including hydromet and early warning capacities) through the Integrated Flood Resilience And Adaptation Project (IFRAP). The project scope consists of five components. These are (i) community infrastructure rehabilitation; (ii) strengthening hydromet and climate services; (iii) resilient housing reconstruction and restoration; (iv) livelihoods support and watershed management; and (v) project management, technical assistance, and institutional strengthening. The project also includes a contingency emergency response component (CERC) to allow flexibility to reallocate funds in case of an eligible emergency during project implementation.

2. OBJECTIVES:

The Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal Audit helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The "independence" of the Internal Auditor means that its activities are conducted in a manner free from conditions that threaten its ability to carry out its responsibilities in an unbiased manner.

The purpose of hiring the Internal Auditor is to help the program accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

It is perceived that Internal Auditor shall:

- Provide assurance that financial and operational risks are understood and appropriately managed;
- Identify gaps and promote the establishment of best practices with respect to Public Funds Management;

- Identify opportunities for pragmatic efficiency and effectiveness improvements, primarily in internal controls and risk analysis.
- Advise on matters regarding internal controls and risk management.
- Evaluate risk management procedures and internal controls.
- Provide comprehensive process assurance services.
- Provide trainings for the capacity building of Project staff in order to conduct annual audit of the Project in accordance with the Cash basis International Public Sector Accounting Standards (IPSAS).

3. TASKS AND RESPONSIBILITIES:

The Internal Auditor shall provide the internal audit services to the IFRAP Project including technical assistance Components (PIUs & FPMU). The following is the scope of work, duties, and responsibilities of the consulting firm. These include but are not limited to:

- ✓ The firm is required to provide a detailed review of current systems including an analysis of current controls and procedures and provide an overview of systematic risks arising due to current systems. The firm is expected to do this with respect to current best practices. This extends to evaluating accounting controls, procedures and policies.
- ✓ The firm is required to conduct a project level internal audit including technical assistance component (PIUs & FPMU) which will include six monthly internal audits for randomly selected project implementing agencies, as and when required.
- ✓ The firm is required to provide solutions with respect to any control gaps found between practices followed at the FPMU and selected implementing Units/Agencies with respect to best practices under IFRAP Project
- ✓ The firm is required to have a clear understanding of Government accounting policies and procedures and audit requirements when proposing solutions or improvements

to FPMU's systems and/or selected implementing Units/Agencies under IFRAP Project.

- ✓ The firm is to propose and implement adequate monitoring mechanisms at FPMU and all implementing units/agencies under IFRAP Project in order to ensure best practices. It is expected that solutions provided by the firm will be in complete compliance with Government policy, standards and requirements.
- ✓ The firm is to provide an opinion on financial information provided to management and assess any risks arising from the operations of the current system. The firm will also provide solutions in cases where the reliability, relevance or timeliness of information provided to senior management is at risk.
- ✓ The firm may be asked to provide sources and procedures for maximizing information flows to senior management. This may include establishment of processes to provide relevant information streams to senior management at the end of each pre-defined period.
- ✓ The firm is to assess current procedures regarding fixed assets.
- ✓ The firm may be asked to conduct verification of Physical assets and stock of FPMU as well as implementing units/agencies of the Project.
- ✓ The firm is to evaluate and review internal controls with a focus on identifying gaps that might result in any sort of irregularities or malpractices. The firm will be expected to provide a solutions and/or mitigating measures to such gaps.
- ✓ The firm is required to develop, in consultation with senior management, a strategic Internal Audit Plan of IFRAP Project based on assessment of key risk factors facing FPMU and units/implementing agencies, with regard to its current operations, specifications and requirements for future audits and schedule of audits to be conducted at the project.
- ✓ The firm is responsible to prepare annual audit reports in line with the approved audit plan under IFRAP Project including technical assistance component (PIU &

FPMU).

- ✓ The firm may be asked to conduct training sessions for the staff of FPMU and PIUs for the preparation of Annual Financial Statements of IFRAP Project both Project and TA components.
- ✓ The firm may be asked to perform other tasks as and when required by senior management.

Scope of Work:

1) The objectives of the internal audit are to:

- (i) Enable the auditor to express a professional opinion on the effectiveness of the overall financial management, internal controls, accounting system and procurement arrangements;
- (ii) Whether the overall financial management and arrangements including the system of internal controls as documented in the ~~Project Appraisal Document (PAD), Project Implementation Manual, Procurement Manual & Financial Management Manual~~ and are in practice, and considered effective and adequate, commensurate to the nature of the operations, and
- (iii) Provide project management unit with timely information on financial management aspects of the project, including internal controls and compliance with financing agreements, to enable follow-up action.

2) The audit will be carried out in accordance with applicable professional standards and will include such tests and controls, and conducting the audit special attention should be paid to the following:

(i) General:

- a) An assessment of compliance with provisions of financing agreements (IDA Financing Agreement and Project Agreement), especially those relating to procurement, accounting and financial matters.
- b) Adherence to Government orders, project principles and procedures prescribed in the Project Implementation Manual for the Project and the administrative rules and regulations made under the project; consistent with legal arrangements, from time to time
- c) Adherence to the safe guard policies applicable to the Project.

- d) Transactions are undertaken on the basis of proper authority
- e) Transactions are duly supported by proper supporting documents
- f) ~~Adherence to World Bank guidelines, other funding agencies and financial procedures formulated by the PMU in Operation Manual.~~
- g) All Vouchers are serially numbered and filed properly.
- h) Checking of component wise, category-wise and account head wise expenditures.
- i) Checking of various MIS and FMS reports generated along with statements and information submitted to various authorities.
- j) Checking of cost data with physical achievements data to monitor project progress.
- k) Checking of various contracts awarded under each component

(ii) Procurement:

- a) Whether goods, works non-consulting services and consulting services are being procured following the procurement procedures defined for the project in accordance with World Bank Procurement Regulations.
- b) Whether goods, works non-consulting services and consulting services are being procured in accordance with the approved procurement plan and sanctioned budgets in the approved Annual Workplan.
- c) Whether time schedule for procurement of goods, works non-consulting services and consulting services is in line with the approved procurement plan.
- d) Whether required documentation for procurement activity and contract management is being maintained for all purchases made
- e) Whether capacities for procurement as indicated in the Project Implementation Manual have been created.

(iii) Financial Management:

- a) Review of Receipts and Payments accounts, Income & Expenditure account, Balance sheet, all schedules to final statement of accounts, notes to accounts and accounting policies of Project for the financial year and helping in preparation of all statements required to be submitted to World Bank and all other authorities
- b) All necessary supporting documents, records, and accounts have been kept in respect of all project activities and that clear linkages exist between accounting records, accounts books and the periodic financial reports (IUFR). Clear linkages should also exist between the books of account and reports presented to Government of Sindh and reports presented to the World Bank; IUFR should accurately reflect expenditures and activities on the Project

- c) Comparison between budgets vis-a-vis actual expenditure on monthly quarterly basis.
- d) Whether books of accounts are being maintained in the manner and formats defined by the Financial Management Manual of the project.
- e) Checking of running bills raised for payment under each project
- f) Checking of various statutory compliance like Income Tax, Sales Tax etc.
- g) Ensuring adherence of accounting and auditing standards and advising the Management on framing of proper accounting policies required for proper maintenance of books of accounts as required by various authorities
- h) Conduct pre-payment audit, the accuracy and propriety of transactions.
- i) To ensure that funds are used with due regard to economy, efficiency and for the purposes they are provided
- j) Checking the maintenance of Books of accounts and records.
- k) Checking of the Bank Reconciliation statements on monthly basis and highlight the deficiencies if any
- l) Whether the financial transactions are being accurately and completely recorded.
- m) Report any expenditure incurred by the project which should be disallowed
- n) Understand the process of tagging and maintenance of assets acquired under the project. The auditors may perform physical verification of assets (If considered necessary)

(iv) Project Management:

- a) Whether the physical progress tracking mechanism defined for the project has been operationalized.
- b) Whether physical progress reports being submitted have been reviewed for their correctness and authenticity before submission.
- c) Whether physical progress reports are being submitted as per the timelines and formats defined by the project tracking framework.

(v) Others:

- a) Whether appropriate internal controls as specified by the Financial Management Manual,
- b) Operations Manual, Procurement Manual and other relevant notifications, if any, are operating satisfactorily. The auditor should suggest methods for improving weak controls or creating them where need be.
- c) Verifying compliance with recommendations of the earlier audit reports and commenting thereon.

4. Selection Criteria

1. Should be incorporated in audit and assurance business for past 10 years
2. The firm should be QCR rated and must hold the Category A as announced by the State Bank of Pakistan in the latest notification.
3. The audit firm shall have highly qualified professional team with expertise in the areas covered under these ToRs.
4. Experience of providing services in similar nature & size of at least two (2) contracts. The firm must provide the documentary evidence of the assignments carried out.

The firm should have adequate logistical capacity as evidenced through established functioning offices.

5. Team of Experts:

The qualifying firm is expected to have following team members for this assignment:

Sr. No.	Description	Total No of Consultant	Criteria	Project
1.	Team Lead	01	CA/CPA/ACCA with 10 years' work experience	IFRAP Project (FPMU and all Implementing Units/Agencies)
2.	Coordinator	02	16-year education with 7-year relevant experience	One Coordinator for FPMU and one for all implementing Units/Agencies under IFRAP Project
3.	Associates/ Experts/ Accountants	05	CA/CPA/ACCA with 4 years' workexperience	1 Associates/ Expert/ Accountants each for FPMU including respective implementing Units/agencies

6. Deliverables:

The firm is required to conduct the Internal Audit of Program Units i.e. FPMU and as well as Units/Implementing Agencies, on six monthly basis for the period of 2 years & submit six monthly audit reports. The firm is expected to deploy its resource for 1-2 months for each six months. The deliverables shall include.

1. Project Inception Report
2. Annual Inception Report/ Audit Plan
3. Draft Audit Report on six monthly basis (4 in number)
4. Final six-monthly Audit Report (4 in number)

7. Method of Selection of firm:

Consultant(s) is being selected in accordance with the **Consultant's Qualification based Selection** (CQS) method set out in the WB Procurement Regulations for IPF Borrowers (Procurement in Investment Project Financing, Goods, Works, Non-Consulting and Consulting Services - Fourth Edition, November 2020).