

Balochistan Integrated Water Resources Management and Development Project (BIWRMDP)

Selection of Internal Audit Firm

Terms of Reference

1. INTRODUCTION

Water situation in Balochistan is acute as a whole. Balochistan often faces severe drought conditions and water availability is drastically reduced during extended droughts which lead to high marginality in income and livelihood means. The storage facilities are inadequate for both surface and ground water and the poor conditions of canal and water structures require urgent rehabilitation and regular maintenance. The lack of adequate water storage capacities, flood retention areas as well as flood protection embankments led to the experience of high damages. Urgent efforts and investments are required for rehabilitation of its water infrastructure, water conservation and retention of flood water.

Balochistan integrated water Resource Development and Management Project (BIWRMDP) has been conceived with the development objective to help the Balochistan Province better manage its scarce water resources for rural development and poverty reduction through: (a) restoring and increase water storage; (b) increasing water productivity through a combination of engineering, management and agricultural measures; and (c) building the local capacity in implementing such schemes by adopting an Integrated Water Resources Management approach. The Government of Balochistan has requested financial support from the World Bank for the Project.

2. PROJECT COMPONENTS

The Project is organized under three components

1. The **Component A** is focused at Institutional and Legal Reforms, Capacity Building and installation of Hydro-meteorological network.
2. The **Component B** is aimed at new and rehabilitated infrastructure for irrigation, rural water supply and flood protection, improved watershed and rangeland management in areas associated with the targeted irrigation schemes, and improved on-farm water management and agricultural productivity.
3. Similarly, the **Component C** is dedicated to Project Management and Technical Assistance

3. OBJECTIVE OF THE ASSIGNMENT

To mitigate the fiduciary risks associated with the project activities the internal control processes, PMU requires the services of a Chartered Accountants' Firm ("the firm") to conduct annual Internal Audit of BIWRMDP's activities, systems and transactions

4. SCOPE OF SERVICES

4.1. PURPOSE AND DEFINITION OF INTERNAL AUDIT

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

- provide assurance that financial and operational risks are understood and appropriately managed;
- promote the establishment of best practices;

- 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; and,
- provide comprehensive process assurance services.

4.2. SCOPE OF WORK AND RESPONSIBILITIES

The Internal Auditor shall provide the internal audit services to the project. Internal Audit of project will be carried out as per approved internal audit plan agreed between the Project Management and the Firm.

- (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), Operation Manual, Procurement Manual & Financial Management Manual are in practice, 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.

The Internal Audit of the project will cover the three fiscal years (FY) i.e. 2021/22, 2022/23, 2023/24

The scope of work of Internal Auditor is to determine whether the project's risk management, controls, and compliance processes, as designed and represented by management, are adequate and functioning. The control frameworks are developed in compliance with GoP Rules and Regulations, World Bank Guidelines as well as international standards. The Internal Auditor should review that whether projects' control framework ensures that:

- Risks are appropriately identified and managed.
- All the financial, managerial, and operating information is accurate, reliable and timely.
- Project staff actions and transactions are in compliance with internal policies, standards, procedures, and external applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved in timely manner.
- Quality and continuous improvement are fostered in the project's control process.

The control assurance activities performed by Internal Auditor will include but not limited to:

- Reviewing the reliability and integrity of financial and operating information and how it is identified, measured, classified and reported.
- Reviewing the systems established to ensure compliance with laws and regulations.
- Reviewing the systems established to safeguard assets and, when appropriate, verifying the existence of assets.
- Appraising the economical and efficient use of resources.
- Evaluating the adequacy and effectiveness of the project's processes for controlling activities and managing risks.
- Testing key financial reporting controls in identified financial systems and processes.
- Identifying significant risks to the ability of the project to meet its objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks.

- Performing early entry engagements to assist management in incorporating an adequate control structure in new systems and processes.
- Reviewing the reports of the external auditor, monitoring compliance against recommendations of auditors and reporting the status to the PSC.
- Reviewing the report of the monitoring and evaluation Consultant/firm and on test basis perform qualitative beneficiary survey to ensure that the funds are used for the purpose intended.

The internal audit will be carried out in accordance with applicable professional standards and will include such tests and controls. Project activities/ processes where Internal Auditor should particularly focus include:

Control Environment

Control environment risk factors incorporate management's attitude, awareness, and actions concerning an organization's control environment. It is important that the Internal Auditor obtain sufficient knowledge of the PMU and PIUs, Hydro-Meteorological Data Collection and Management, Water Management and Infrastructure Investments, Basin-level Watershed Management Activities, Scheme-level Watershed Management Activities, managements' monitoring of performance and compliance with laws and regulations.

Financial Management

The Internal Auditor shall perform a review of the financial management and internal control structure at PMU Quetta and report if they are in accordance with international standards to determine the adequacy of the existing controls related to the management of all funds received by entities. The Internal Auditor shall obtain sufficient understanding of entities' financial management system and provide evaluation of the management control environment, the accounting system and the control procedures in order to determine the adequacy of the system to control and account for funds transferred to it. The internal auditor shall review that project financial management arrangements are in line with those defined in the Financial Management Manual (FMM).

Procurement Management

The Internal Auditor shall review project's procurement processes with an objective mindset to provide assurance that they are effectively designed in accordance with the Bank's procurement and consultants guidelines and are operating efficiently.

Reconciliations and other control procedures

The internal auditor shall verify that appropriate controls including reconciliations are in place and controls are implemented on continuous basis.

Physical Verification

As part of internal audit, the auditor shall conduct physical inspection of project's assets and ongoing interventions in the field.

Contract Management

The Internal Auditor shall review the project's processes for contract management and administration to provide assurance that all parties to the contract fully meet their respective obligations as efficiently and effectively as possible, in accordance with contractual stipulations, delivering the business and operational outputs required from the contract and providing value for money. The Internal Auditor shall carry out a detailed review of contract administration functions such as inspection and acceptance, agreement modifications, disputes, proper accounting and termination etc. The Internal Auditor shall also review the progress of work and compare it with the contract documents, work plans and work completion report.

4.3. QUALITY ASSURANCE

The Internal Auditor shall develop and maintain a quality assurance and improvement program that would cover all aspects of Internal Audit activity related to the project. This should enable the evaluation of the conformance of Internal Auditor activities with the Institute of Internal Auditors International Professional Practices Framework (IPPF) and Code of Ethics.

4.4. REPORTING

Reporting Arrangements:

For administrative and contractual matters, Internal Auditor shall liaise with Project Director. Expected reporting arrangements for internal auditor are summarized below:

Project Director	<ul style="list-style-type: none">• Discussion on level of risks, areas where management needs support and time allocations to prepare internal audit plan• Preparation and submission of quarterly internal audit plan for the project• Agreeing on dates and schedule for internal audit.• Submission of draft internal audit report• Discussion on draft internal audit report• Submission of final internal audit report incorporating management comments• Reporting on follow-up of internal audit recommendations for the project
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5. ELIGIBILITY CRITERIA

The Audit firm shall meet the following criteria:

Experience

The audit firm must have at least 10 years working experience of applying International Auditing Standards in its audit & assurance assignments and have a sound knowledge of donor-financed projects audits. Audit Firm must be having 'satisfactory' rating under the Quality Control Review (QCR) program managed by the Institute of Chartered Accountants of Pakistan with a documentary verifiable record of satisfactory QCR rating for the last 10 consecutive years.

Qualifications

The audit firm shall have employees with appropriate professional qualifications including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited. The engagement partner and audit manager must at least have 10 and 5 years' experience respectively in auditing.

Key Experts

Please insert the list of key experts for the audit.

1. Engagement Partner - A Chartered Accountant with not less than 10 years of experience in Auditing (of which 5 years in donor funded operations)
2. Audit Manager - A Chartered Accountant with not less than 8 years of experience in Auditing (of which 3 years in donor funded operations)
3. Auditor in Charge - A Chartered Accountant with not less than 5 years of experience in Public Sector Accounting and Auditing.

6. SELECTION PROCESS

A consulting firm will be selected in accordance with Selection Based on Consultants Qualification (CQS) method set out in the World Bank's Guidelines: Selection and Employment of Consultants by World Bank Borrowers (January 2011) www.worldbank.org/procure.

7. DELIVERABLES

The Consultant will be expected to deliver the following outputs and should be completed within 30 calendar days after the service contract comes into force.

Deliverable	Frequency	Date	Payment
Internal Audit Plan	One Time	SD + 5	15% of the total fee
Internal Audit Report of the Program	yearly	SD + 10	35% of the total fee
2nd Report will also include follow-up on the PCC decisions/ recommendations	yearly	SD + 15	50% of the total fee

The Internal Auditor shall provide an electronic copy and three (3) hardcopies of each deliverable to the respective recipient.