

# Terms of Reference

## Internal Audit Firm

### Background

Government of Sindh (GoS), through the Sindh Social Protection Authority (SPA), is implementing the “Strengthening Social Protection Delivery (SSPD) System in Sindh” project with the assistance of the World Bank to strengthen social protection service delivery system and enhance accessibility and utilization of mother and child health services in selected districts in Sindh.

The project will support three components, financed through an Investment Project Financing (IPF) instrument, with US\$200 million from the International Development Association (IDA) and US\$30 million from counterpart funding. The Project components are: (a) Strengthen Sindh Social Protection Service Delivery Systems to support the modernization of systems and processes to fully operationalize the newly established Sindh SP Authority and improve its institutional capacity by strengthening the administrative, operational, policy, and planning functions and capabilities, including the development of energy efficient/climate-smart information technology (IT) systems and capacity building through the provision of technical assistance; (b) Mother and Child Support Program (MCSP) focusing on birth and first 1,000 days where risks and needs are high but programmatic responses are weak; the main objective of this component is to create demand for Maternal and Newborn Child-Health (MNCH) services and promote behavioral change to increase uptake of the MNCH services focusing on the first 1,000 days of life through the provision of CCTs in selected districts; and (c) Contingent Emergency Response with zero allocation, providing the Borrower to gain quick access to Bank financing to respond to a crisis or emergency. As part of a comprehensive disaster risk management strategy, the Contingent Emergence Response Component typically provides support for immediate rehabilitation and reconstruction needs.

### Overall Job Objective:

To support effective implementation of the SSPDSS, and strengthening the Finance & Audit function within SSPA, the services of an experienced and dynamic **Internal Audit Firm** are required to provide support and advice to the team and ensure compliance with WB policies and procedures.

### Objectives of the Assignment:

The Internal Audit is an independent and objective assurance 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 purpose of hiring an Independent firm for Internal Audit 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 Internal Audit Firm shall;

- i. Review and provide their assessment that financial and operational risks are understood and appropriately managed by the SSPDSS management;
- ii. promote the establishment of best practices by making recommendations;
- iii. identify opportunities for efficiency and effectiveness improvements, primarily in internal controls and risk analysis;
- iv. advise on matters regarding internal controls and risk management;
- v. evaluate risk management procedures and internal controls;
- vi. provide process review services.

### **Scope of Work:**

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:

The Internal Auditor shall provide the internal audit services to the Client (SSPDSS). Internal Audit of project will be carried out as per approved internal audit plan agreed between the project management and the firm.

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 and World Bank's guidelines. The Internal Auditor should review that whether projects' control framework ensures that:

- a) Risks are appropriately identified and managed by the SSPDSS management.
- b) Significant financial, managerial, and operating information is accurate, reliable and timely.
- c) Project Staff actions and transactions are in compliance with the internal policies, standards, procedures, and externally applicable laws and regulations.
- d) Resources are acquired economically, used efficiently and adequately protected.
- e) Programs, plans, and objectives are achieved by SSPDSS.
- f) Quality and continuous improvement are fostered in the project's control process.
- g) Significant legislative and regulatory issues impacting the project are recognized and addressed appropriately.

The Internal Auditor will carry out its responsibilities by:

- a) Developing Bi-annual Internal Audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, the external auditors, or the Steering Committee and will submit the plan to the Project Director for review and approval.
- b) Executing the Bi-annual Internal Audit plan, as approved and revised, from time to time.
- c) Communicating results of Internal Audit and recommendations for improvement to the Project Director/Steering Committee. Obtaining written management responses as to corrective action planned or taken within a specified time from the issuance of the audit reports. Evaluate and monitor the disposition of the proposed actions and their expected effectiveness. Instances of residual risk that may be unacceptable will be discussed with management.
- d) Issuing internal audit reports to the Project Director and Steering Committee
- e) Employing professional audit staff with sufficient knowledge, skills, experience, and professional certifications to carry out audit of the project.
- f) Communicating opportunities for improving management control, functioning and organizing of the project.

The control review activities performed by Internal Auditor at SSPDS level will include:

- a) Reviewing the reliability and integrity of financial and operating information and how it is identified, measured, classified and reported.
- b) Reviewing the systems established to ensure compliance with laws and regulations.
- c) Reviewing the systems established to safeguard assets and, when appropriate, verifying the existence of assets at SSPDSS level.
- d) Appraising the economical and efficient use of resources.
- e) Evaluating the adequacy and effectiveness of the project's processes for controlling activities and managing risks.
- f) Testing key financial reporting controls in identified financial systems and processes.
- g) 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.
- h) Performing review of the books of account and disbursement on sample basis to confirm if the project funds are properly expended and accounted for in compliance with the terms of the grant and project agreements and as per the applicable laws, rules and regulation
- i) Review interim financial reports (IFRs) and provide comfort over the production of accounting/financial records.

The abovementioned activities will be performed on sample basis. Review and evaluation of the control environment, as explained above, does not include pre or post audit of payment transactions.

Project activities/ processes where Internal Auditor should particularly focus include:

**(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 Appraisal Document, Operation Manual, Procurement manual & Financial Management Manual for the Project and the administrative rules and regulations made under the project 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 and services are being procured following the procurement procedures defined for the project.
- b) Whether goods, works and services are being procured in accordance with the procurement plan and sanctioned Budgets.
- c) Whether time schedule for procurement of goods, works and services is in line with the project 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 Operations 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 Management Unit 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 (IUFRR). Clear linkages should also exist between the books of account and reports presented to Government of Sindh and reports presented to the World Bank; IUFRR 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.

**(vi) Quality Assurance**

The Internal Auditor shall develop and maintain a quality assurance and improvement program that covers 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.

**Institutional Arrangements and Reporting:**

- a) The half yearly report and annual report to be submitted within one month of completion of period.
- b) Provide the authority with timely information on financial Management aspects of the projects to enable follow up action.
- c) Presenting Internal Audit Reports to Steering Committee and follow up on its directives.

**Duration of the Assignment**

Initial Assignment for the Firm is for 3 years extendable on satisfactory performance of the firm subject to approval of the World Bank.

**Qualification and Experience**

- a) Satisfactory rating under the Quality Control Review program managed by Institute of Chartered Accountants of Pakistan. Its name appears in Category “A” of State Bank of Pakistan’s Panel of Auditors
- b) The firm shall have highly qualified professional team with expertise in the areas covered under ToRs.
- c) The firm should not be in the GoP/GoS & World Bank debarred list.
- d) Experience of providing services in similar nature & size of at least two (2) contracts. The firm must provide documentary evidence of the assignments carried out.

**Selection Criteria**

Selection will be made through a competitive process in accordance with paragraphs 7.38 of “World Bank: Procurement Regulation for Investment Project Financing Goods, Works, Consulting Services, Non-Consulting Services” (Revised November 2017 & August 2018).