

# **BALUCHISTAN LIVELIHOODS AND ENTREPRENEURSHIP PROJECT INTERNAL AUDIT OF THE PROJECT'S ACCOUNTS TERMS OF REFERENCE AND SCOPE OF SERVICES**

## **1. Project Background**

In response to the priorities of the Government of Pakistan on poverty reduction, the World Bank in close consultation with Government of Balochistan (GoB) and relevant stakeholders have designed the Balochistan Livelihoods and Entrepreneurship Project (BLEP) focusing on improving livelihoods of rural communities by promoting employment opportunities and sustainability of enterprises in project Districts. The project will be implemented in eight districts in the north of Balochistan, including Killa Abdullah, Killa Saifullah, Chagai, Sherani, Pishin, Mastung, Zhob and Nushki and will benefit rural households to promote livelihoods through enterprise development and job creation.

**Objective:** To promote employment opportunities for rural communities and promote sustainability of enterprises in selected districts of Balochistan.

**Project Cost:** US\$ 50 million (\$15 million MDTF Grant, \$21 million IDA Loan & \$14 million IDA Grant)

## **2. Objectives and Scope of Services**

To mitigate the fiduciary risks associated with the project activities and to strengthen the internal control processes, PMIU requires the services of a Chartered Accountants' Firm ("the firm should be QCR rate by ICAP") to conduct quarterly Internal Audit of BLEP's activities, systems and transactions. The audit shall be primarily carried out at Quetta.

The Internal Audit of the all financial, procurements, logistic and field level activities and would cover the two fiscal years (FY) i.e. 2022-23, 2023-24 and would be carried out on quarterly basis during each fiscal year.

The internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal auditing 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 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. 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.
- Significant financial, managerial, and operating information is accurate, reliable and timely.
- Project Staff/Consultants 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.
- Quality and continuous improvement are fostered in the project's control process.
- Significant legislative and regulatory issues impacting the project are recognized and addressed appropriately.

The Internal Auditor will carry out its responsibilities by:

- Developing a quarterly Internal Audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, the external auditor, or the Project Steering Committee (PSC). Agreeing the plan with the Head of Project and submitting to the PSC for comments.
- Executing the Internal Audit plan, as approved and revised, from time to time.
- Performing advisory services, beyond assurance services, to assist management in meeting project's objectives, where required.
- Reporting suspected fraud, investigation of significant suspected fraudulent activities within the project, if any, and notify the PSC of the results.
- Communicating results of Internal Audit and recommendations for improvement to the Head of Project. 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 and, if unresolved, reported to the PSC.
- Issuing internal audit reports to the World Bank, Head of Project and the PSC.
- Employing professional audit staff with sufficient knowledge, skills, experience, and professional certifications to carry out audit of the project.
- Communicating opportunities for improving management control, functioning and organization of the project to management and the PSC.

### **3. Terms of Reference**

Without any limitation to the generality of the scope associated to the nature of the internal audit function, the following are some of the specific Terms of Reference for the proposed assignment. The audit shall be primarily carried out at Quetta.

1. To work with the Project Management and other stakeholders to ensure a system is in place which ensures that all major risks of the project are identified and analyzed in a timely manner;
2. To plan, organize and carry out the internal audit function including the preparation of an audit plan, scheduling and assigning work and estimating logistical requirements;
3. As part of audit, the auditor shall conduct physical inspection of project's assets and outputs in PMIU and Field level as well, particularly Entrepreneurs Grant activities and Installments mechanism, Livelihood Grant activities, Business Support Facility arrangements and Civil work activities;
4. Determination of operations to be audited and the timing and frequency of audits;
5. Development of an Annual Audit Programme and submission of the same to the Project Management;
6. Verification of controls and amounts issued to the beneficiaries of Livelihood grant and entrepreneurs grant.
7. Performance of specific audit procedures;
8. Rechecking of a sample of transactions to examine their processing, supporting documents, accounting and reporting steps;
9. Research, audit and analysis of technical transactions and financial models to resolve questions and validate data, assuring fiscal accountability and fund integrity for all transactions, allocations, distributions and documentation;
10. Review of source documents for compliance to rules and regulations, and proper handling of financial and technical transactions;
11. Audit of financial information system database, checking and verification of expenditures, billings, collections, journal entries and fund balance;
12. Monitoring of compliance with generally accepted accounting principles and procedures applicable under the BLEP Operations Manual developed for the project;
13. Maintenance of professional competence in auditing and accounting principles and techniques, reviews and application of new or revised laws, regulations and accounting standards;
14. As part of audit, the auditor shall conduct Internal Audit of project Implementing partners (if any) on biannually basis;
15. Preparation of comprehensive written reports;
16. Reporting to both the Project Management as well as the World Bank the material observations on the policies, systems and activities of the project;
17. Recommending changes in policies or procedures to increase efficiency of operations or to improve safeguards over assets;
18. Making recommendations on the systems and procedures being reviewed, report on the findings and recommendations and monitor management's response and implementation;
19. Follow-up to determine adequacy of corrective actions;
20. Reviewing the accuracy, timelines and relevance of the financial and other information that is provided for project management;
21. Value for money reporting on utilization of funds that the project obtains in all its field work with special regard to economy, efficiency and effectiveness;
22. Other internal audit activities as may arise.
23. The internal audit shall carry out its responsibility in accordance with professional standards including those issued by Institute of Internal Auditors and International Federation of Accountants. 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.

24. The Financial Statement should include but are not limited:

- a) Balance Sheet
- b) Statement of Financial Performance

#### 4. Deliverables:

The audit firm is expected to provide the below deliverables with the following tentative deadlines:

S. No	Deliverable	Timeline	Remarks
1	Audit Plan/Frame work	Within two weeks after signing of the Contract	The audit team will explain the methodology chosen to conduct the biannual audit, the time needed and anticipated work plan, and will be briefed on BLEP project systems. Discussion on level of risks, areas where management needs support and time allocations to prepare internal audit field plans.
2	Submission of draft Internal Audit Report	Within two weeks after audit Plan/Frame work and ending of six months audit	The biannual audit will be start after ending of each six months period. The audit team will also be granted access to PMIU, Implementing partner's offices and project sites as necessary.
3	Submission of draft Internal Audit Report	Within two weeks after ending of last six months audit	
4	Submission of draft Internal Audit Report	Within two weeks after ending of last six months audit	
5	Submission of draft Internal Audit comprehensive Report	Within one month after ending of last six month audit and completion of all biannual audits	The audit firm will prepare a draft management letter along with audit findings and addressed to Head of Project, in which the auditor will raise the observation/quires and needs management comments on their observations/quires.
6	Submission of Biannual Final Audit Report	Within one month of completion of all biannual audits	The audit firm will submit Final Internal Audit Report incorporating management comments, in which the auditors will: <ul style="list-style-type: none"> <li>• Give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;</li> </ul>

			<ul style="list-style-type: none"> <li>• Identify specific deficiencies and areas of weakness in systems and controls and make rationale recommendations for their improvement;</li> <li>• Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project;</li> <li>• Bring to the attention of Management any other matters that the auditors consider pertinent; and,</li> <li>• Reporting on follow-up of internal audit recommendations for the project.</li> </ul>
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## 5. Eligibility Criteria

The Audit firm shall meet the following criteria:

**Independence:** Internal Audit remains independent of the activities that it audits to ensure objective judgment. The Head of Internal Audit proactively prevents impairments to Internal Audit's independence and objectivity by:

- i. The audit firm must be completely impartial and independent from all aspects of management or financial interests in the entity being audited;
- ii. The firm shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as key management person/firm for, or have any, financial or close business relationships with any senior participant in the management of the project.;
- iii. Ensuring the Internal Audit team takes no responsibility for the design and implementation or operation of controls;
- iv. Addressing any personal conflicts of interest that might arise through using alternative team members;
- v. Any other relationship, which might possibly compromise the auditor's independence, as mentioned in the code of ethics issued by the Institute of Chartered Accountants of Pakistan, must be disclosed prior to accepting the audit engagement.

## 6. Qualification Criteria:

The Audit firm must meet the following qualifications to be considered, for which the documentary evidences shall be mandatory;

- i. The firm must be registered with the Accounting / Auditing body in Pakistan
  - a. (Proof of ICAP Registration should be attached).

ii. An audit firm must have listed in 'A' category in the list of State Bank of Pakistan's Panel of Auditors Maintained under Section 35 (1) of Banking Companies Ordinance, 1962.  
(Proof of Current Listing must be attached).

iii. An audit firm must have at least ten (10) years working experience (assignment / contract duration) of conducting audit assignments in Public Sector (Government Organization)

*(Documentary evidence must be provided e.g. contract / letter of award / work order / completion certificates or reference letter from the clients stating scope of services and deliverables & duration of assignment).*

iv. Firm must have completed at least four (04) audits of Projects funded by the World Bank or other international organizations.

v. 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 5 years.

*(Documentary evidence must be provided e.g. contract / letter of award / work order / completion certificates or reference letter from the clients stating scope of services, deliverables & amount (value / currency) of assignment).*

The following documents are mandatory requirements for all proposal submissions;

- i. A copy of Certificate of Registration/Incorporation
- ii. Valid Tax Compliance Certificate/ATL Status (NTN & Board of Revenue)
- iii. Detailed Company Profile.
- iv. List of Key Experts (Annexure I), CVs are not required at this stage.
- v. ICAP Certificate
- vi. Proof of Satisfactory QCR rating.
- vii. Undertaking that no litigations are in process with Private or Public Sector entities or provide complete details of such litigations (Stamp Paper @ PKR 100)
- viii. The bidder shall provide an undertaking (Stamp Paper @ PKR 100) that the bidder has not been declared black listed by any national institution and/or by any international/foreign organization.
- ix. Documentary evidence must be provided e.g. contract / letter of award / work order / completion certificates or reference letter from the clients stating scope of services, deliverables, duration & amount (value / currency) of assignments.

## **7. Team of Experts/Key Personnel:**

As the project is implemented by Government it is a pre-requisite that the key personnel should be familiar with General Financial and treasury rules & procedures and works accounting system, as well as government accounting and financial procedures. 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 (**Please see Annexure I**).

## 8. Contract Duration:

The Internal Audit of the BLEP project would cover the two fiscal years (FY) i.e. 2022-23, 2023-24 and would be carried out on biannually basis during each fiscal year.

The Contract duration is twenty eight (28) months.

## 8. Selection Process

A consulting firm will be selected in accordance with Selection Based on Consultant Qualification Based Selection Method (CQS) set out in the World Bank's Procurement Regulations for Goods, Works, Consulting and Non-Consulting Services July 2016, revised November 2017 and August 2018. [www.worldbank.org/procure](http://www.worldbank.org/procure).

### Team Profile Annexure I

S. No.	Key Professionals	Description of Services to be provided	Experience
1	Senior Manager (One Position)	Overall coordination, & planning, team leadership, reporting, liaison with client. Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with Head Office at PMIU and report writing.	Qualified Chartered Accountant with minimum post qualification experience of at least 10 years with expertise in the area of internal audit planning, execution and reporting. Out of which at least 5 years' experience as internal audit of Public Sector Projects and have good knowledge of World Bank's Procurement Regulations. Senior Manager should be a member of the Institute of Chartered Accountants of Pakistan with QCR from ICAP.
2	Audit Manager (one Position)	Field level audit activities (mainly relating to civil works) including sample physical verifications of activities/ assets). Easily travel to remote areas.	Qualified Chartered Accountant with minimum post qualification experience of 3 years or more. Out of which at least 2 years' experience as internal audit of Public Sector Projects. Must have good knowledge of World Bank's Procurement Regulations.
3	Audit Team Members (02 positions)	Conceptual understanding of large-scale projects especially good command over civil work activities. Excellent knowledge of accounting and auditing. Easily travel to remote areas.	CA Inter. Article ship experience of more than 2 years. Having experience of an audit of Public sector projects. Must have knowledge of World Bank's Procurement Regulations.