

## **Terms of Reference for Hiring of Firm for Establishment of Internal Audit Functions in Government of Sindh**

### **Back ground**

Internal Auditing is an invaluable function to any organization, whether public or private, senior management and its board and governing bodies. To this end, Government of Sindh (GOS) aims to set-up its own internal audit system in all departments depending on size of budget outlay and public service delivery of the particular department or affiliates. GOS vision is to create a world class Internal Audit (IA) function based on best international practices as advocated by leading professional auditing organizations of the world.

2. Quite Like its role in every Government, IA's chief aim is to help GOS achieve its main objectives of improving public services at minimum possible cost without compromising on quality standard. GOS intends to take its service delivery to best standards possible while staying within its means and avoiding loopholes. IA will help strengthening internal controls and public governance standards in each department of Government of Sindh thus minimizing probability of frauds, bribery, process gaps, and improve ease of service delivery to the poor masses of our populace – GOS aim is high and task is uphill – however GOS is fully committed to creation of a system in which people can place their highest hopes and trust.

3. Other potential benefits which can be achieved through a sound system of internal audit are:

- Unbiased and objective assessment of whether public resources are responsibly and effectively managed to achieve best value added service delivery at minimum cost.
- Through process mapping and work process assessment and improvement exercise, IA will greatly add to improved operations.
- By employing computer assisted methods, sampling techniques and physical verification, IA will enhance accountability and integrity.
- Gradually, as IA will start delivering, the service standards will improve and processes will be simplified resulting in improved convenience which will enhance confidence among citizens and other stakeholders which are hallmarks of a competent Government and Bureaucracy.
- IA will improve government's oversight through regular audits and follow through reports and meetings – Issues will be highlighted and will be closed only once they are completely resolved. Consequently, it will improve detection and deterrence of corruption and other unacceptable malpractices. GOS has zero tolerance policy towards corruption.
- IA will be totally independent, fully functioning unit – As a result of its output, it will improve governance insight by providing independent assessment of government programmes, policies, operations and results.
- As IA will grow and mature, it will start making recommendations to improve operation considering world's best practices and emerging trends – Net, it will result in a more proactive Government with enhanced foresight for identification of trends and emerging challenges.

4. IA function has remained virtually non-existent in public financial management in GOS - Except a few isolated examples in entities in corporate sector which are owned by GOP, there exists no concept of IA in departments of either the Federal or Provincial Governments. This weakness has been repeatedly identified in PEFA reports undertaken for Federal and Provincial Governments of Pakistan.

5. However, taking the first mover advantage, GOS has decided to embark on this initiative considering its advantages to the people residing in the province of Sindh. GOS has decided to establish IA function initially in its Finance Department (FD) with the intention to subsequently roll out to other departments. Each department will have its own internal audit unit depending on size of its budget and public service delivery. IA function will be headed by Provincial Internal Audit Committee (PIAC) at Province level and Departmental Internal Audit Committee (DIAC) at Department level. These committees will be supported by IA staff of relevant departments. In this regard, IA act and charter have already been drafted and are at various levels of approval stages. These documents provide detailed guidelines on function and lays down the IA structure, at various levels and departments, in a very clear manner.

6. FD envisages the establishment of its Internal Audit Unit with the support of a world class consulting firm which will be taken on board completely on merit while following requisite procurement rules. The consulting firm will work with FD in establishing standard systems and processes following international best practices and relevant act/charter. The firm shall be responsible for capacity building of FD staff by imparting special on job training to enable them to carry out audit activities on their own in future without the firm's help. The eventual aim of this exercise would be to have a self-sustainable internal audit Unit that would be staffed by FD resources on a full time basis.

## **7. Scope of Activities and Objectives**

- ▶ To achieve immediate objective of improving PFM systems through establishment of an Independent, objective and effective internal audit function.
- ▶ To bring a systematic and disciplined approach to evaluate and improve the effectiveness of the internal control system and thereby strengthening the provincial public financial system.
- ▶ To use relevant tools and aides to assess management risk within the Finance Department.
- ▶ Improving the efficacy and effectiveness of internal controls.
- ▶ Conduct Risk based Internal Audits of four departments of GoS including FD in FY 2016-17 and submit reports to their Principal Auditing Officers (PAOs).
- ▶ The firm must have the techniques for conduction of computer assisted Internal Audit.
- ▶ To firm will give trainings to the 50 officers/officials of various departments of GoS for carrying out internal audits.
- ▶ The firm will prepare the risk based audit plans for four selected departments of the Government of Sindh.

The following outputs are envisaged from this exercise:

### **Output 1. Provide Support in Creating Internal Audit Framework**

8. The firm will provide support to the FD Sindh in the creation of an internal audit framework. The framework will encapsulate best auditing practices and guidance on internal audit.

9. The following activities shall be undertaken by the firm in the development of the internal audit framework:

- i. The Firm will support the Internal Audit Unit, FD in implementation of Internal Audit Act and Charter. This may require presentations before the cabinet, Internal Audit

Committee, Finance Minister Sindh etc. Notification of Audit Committee, ToRs for Audit Committee (s) and managing the meetings of audit committee (s).

- ii. Development of Internal Audit Policies and Procedures Manual which will provide detailed guidance on risk based audit methodology including, understanding the client environment, assessment of Control Risk, Inherent Risk and Detection Risk, sampling techniques, audit assertions, report writing and follow-ups.
- iii. To develop specific guidelines for audit areas. For example Fund Management Audit. The auditor can conduct the audit and concurrently prepare specific guidelines for audit of Internal Audit Unit.
- iv. Development of Annual Internal Audit Plan for approval by the Provincial Internal Audit Committee (PIAC) and Departmental Internal Audit Committee (s) (DIAC).
- v. Specific guidelines for:
  - a. Compliance Audit
  - b. Operational Audit
  - c. Information Systems Audit
  - d. Performance Audit
  - e. Any special assignments, required on a need basis
- vi. Prepare an Internal Audit strategy with appropriate change management and communication plan based on the Internal Audit Capability Model for the Public Sector (IA-CM) in addition to its use as a self-assessment and continuous-improvement model for IA activities

## **Output 2. Review of Legal Framework**

10. For internal auditors, the need for independence and objectivity in conducting an audit is essential. Internal auditors' independence and objectivity is an important factor to enable coordination and cooperation between Supreme Audit Institutions (SAIs) and internal auditors, including in determining whether and to what extent SAIs can use the work of internal auditors. In this regard, it is critical that public sector internal audit activities are configured and positioned appropriately within the respective department.

11. Independence, objectivity and integrity of internal audit function is supported by a legal framework that protects an internal auditor from pressures with-in the organisational set-up. Independence can be compromised if an Internal Auditor is not reporting to the top management or is required to be engaged in management function like procurement, pre-audit or accounting or the unit is placed in the accounting or Finance Department. Independence can also be compromised if the internal audit unit is not provided sufficient resources to efficiently execute the audit plan. The existing legal framework shall be reviewed and recommendations will be made keeping in view that the internal audit function:

- ▶ Is established by legislation or regulation;
- ▶ Is functionally reportable to governance body (such as a steering committee or any other appropriate level), which is independent of day to day management activities;
- ▶ Is located organizationally outside the staff and management function of the unit under audit;
- ▶ Is sufficiently removed from political pressure to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal;

- ▶ Does not permit internal audit staff to audit operations for which they have previously been responsible for to avoid any perceived conflict of interest; and
- ▶ Has access to those charged with governance

12. The legal framework will provide adequate mandate to the internal audit unit to function effectively with appropriate independence and objectivity within the Finance Department of Government of Sindh.

### **Output 3 Execution of Internal Audit Activities**

13. It is envisaged, the initial execution of internal audit activities will take place in parallel with output 1 and output 2.

14. In the initial phase, firm will be responsible for carrying out internal audit activities of the following wings / areas of FD:

**i. Finance Department – Operational Budget / Expense:**

- Operational budget of FD, its assumptions and basis.
- Transaction processing mechanism and compliance with established financial rules.
- Operational expenses approval mechanism, its adequacy and compliance
- Accounting and recording system in place including processing of routine and non-routine transactions including payroll for FD.
- Financial reporting process and controls.
- Asset management, controls over recording and safe custody of assets in place.
- Other day to day functions of the FD

**ii. Fund Management House:**

- Composition and TOR of the investment committee.
- Investment decisions making.
- Fund allocations and portfolio management
- Monitoring daily positions and utilization of funds.
- Fund placement with banks / financial institutions and approval procedures for the same.
- Monitoring maturity and rollovers of short / medium term placements.
- Roles and Responsibilities

**iii. Development Wing:**

- Preparation / consolidation of annual development budgets
- Release of funds from the development budget
- Monitoring and progress reporting of ADB
- Publication of annual reports

## 15. Evaluation Criteria and Recommended Structure of the Technical Proposal

				Marks	Total Marks
<b>A.</b>	<b>Organization</b>				40
		Firm Profile (maximum of 10 pages)	More than 10 plus years of experience in internal audit, and risk / controls assessment and management projects	05	
			Ranked as A firm on the Statement Bank of Pakistan panel of auditors and Satisfactory QCR rating from the institute of Chartered Accountants of Pakistan  Affiliation with global recognized professional firm of accountants	05	
		Credentials	Internal Audit Experience in the Government Sector (including donor funded Government Projects).  Work experience of working with the Sindh, other Provincial and Federal government on the similar assignments.	10	
			Firm's experience of working on similar projects in the regional countries with / for government/public sector or development partners.	10	
			Experience of institutional capacity assessment, development and trainings of the government public sector entities, departments and review of legal framework	10	
<b>B.</b>	<b>Personnel</b>				40
		Team Leader	Professional having more than 15 years of relevant experience in Internal Audit/ External Audit/ Capacity Building with focus of working with government / public sector and international development partners.	5	

			Marks	Total Marks
		Experience of working in the regional countries with/for public sector/development partners.	5	
		Membership of and International Federation of Accountants (IFAC) recognized professional accountancy organization (PAO)".	5	
	Deputy Team Leader	Professional having more than 10 years of relevant experience of Internal Audit/ External Audit/ Capacity Building with focus of working with government / public sector and international development partners.  Experience of working in regional countries for the public sector will be an added advantage.	7	
		Membership of and International Federation of Accountants (IFAC) recognized professional accountancy organization (PAO)"	3	
	Project Manager	Professional having more than 7 years of relevant experience of Internal Audit/ External Audit/ Capacity Building with focus of working with government / public sector and international development partners.	3	
		Membership of and International Federation of Accountants (IFAC) recognized professional accountancy organization (PAO)"	2	
	Audit Experts (03)	Professional having between 2 to 3 years of relevant experience of Internal Audit/ External Audit/ Capacity Building with focus of working with government / public sector and international development partners.	3	
		Membership of and International Federation of Accountants (IFAC) recognized professional accountancy organization (PAO)"	2	

				Marks	Total Marks
			organization (PAO)”		
		Legal Expert	Law professional having more than 5 years of relevant experience in review of legal framework / drafting of laws / preparation of policies for the public sector / government entities.	5	
			LLB/LLM (and / or equivalent) professional qualification		
<b>C.</b>	<b>Methodology</b>				20
		Clarity	Understanding and effective response to all the items listed in the TORs (keeping in context the operational structure of departments / components covered under the scope of work	5	
		Approach / Work Plan	Clear and logical methods in responding to the needs of the FD with a step by step approach and a comprehensive work plan for each of the scope component (processes and sub processes) listed in TORs	15	
	<b>Total</b>				<b>100</b>

**Period of Assignment:**

16. The period of above assignments shall be one year after signing of the contract.