

TERMS OF REFERENCE
FOR HIRING OF AN INTERNAL AUDIT FIRM

1. Project Background, Objectives

Board of Revenue, Punjab with the technical & financial support of the World Bank is implementing the Punjab Urban Land System Enhancement (PULSE) project for the establishment of a unified central database of all types of urban properties (societies / authorities / development agencies), rights and charges. The proposed system will not merely be a GIS & Parcel based one but has all possible functionalities to serve as a robust platform for creation of ‘Spatial Data Infrastructure’ (SDI), an inevitable need of the future. The project will provide a complete and transparent record of title in land and immovable property. Digitization of remaining parts of rural land, digitization of katchi abadi record, automation of sub-registrar record rooms is also part of the project

1.1. Beneficiary Country and Province:

Islamic Republic of Pakistan and Punjab Province.

1.2. Contracting Authority:

Under the Punjab Urban Land System Enhancement (PULSE) Project and in agreement with the World Bank, the Project Implementation Unit (PIU), Punjab Land Records Authority (PLRA), Government of Punjab is the contracting authority.

OBEJECTIVE:

The objective of the Assignment is to mitigate fiduciary risks associated with Project activities and to strengthen internal control processes. PULSE requires the services of a Chartered Accountant Firm ("the firm") to evaluate and improve the efficiency and effectiveness of the Project’s risk management, internal control and governance processes and value for money through conducting periodic Internal Audit of activities, systems and transactions on account of all components. The IA firm will solely be responsible for the extensive internal audit activity and issue report spanning across the PULSE components. Control frameworks are developed in compliance with World Bank Guidelines and GoP Rules and Regulations (as the case may be), as well as international standards.

2. Responsibilities and Scope:

The responsibilities of the Internal Audit Firm include:

- i. Conduct a control risk assessment, analyzing the risks inherent in each significant project activity, mitigating control processes, and any residual risks to the project.
- ii. Develop Internal Audit Plans based on the control risk assessment. The plans should include a summary of key internal controls within each significant project activity, the timing and frequency of planned internal audit work, and the resource budget. The firm

shall use an appropriate risk-based methodology, including any risks or control concerns identified by management, external auditor, or PSC.

- iii. Submission of Audit Plan to PD for finalization and approval.
- iv. Execute the Internal Audit Plan, as approved and revised, from time to time. Any significant deviation from the formally approved plan shall be communicated to the PD through periodic activity reports.
- v. Perform advisory services, beyond assurance services, to assist management in meeting Project's objectives, where required.
- vi. Evaluate and monitor disposition of proposed actions and their expected effectiveness. Instances of residual risk that may be unacceptable will be discussed with management.
- vii. Communicate results of Internal Audit and recommendations for improvement to the PD. Obtain written management responses as to corrective action planned or taken within a specified time from issuance of audit reports.
- viii. Physical verification of a sample of Project assets as recorded in the project financial statements.
 - a. Safeguarding of assets is an integral part of the audit process and sampling or otherwise complete verification depends on the controls established by the management. Based on the review of the asset management policy together with the associated risks, the auditor establishes the mechanism to verify the fixed assets. It might be more appropriate that the physical verification of sample of projects assets, or complete assets be left on the audit methodology of internal audit firm.
- ix. Verification of the payment cycle, including withdrawal application, Receipts and payments etc.
- x. Issue internal audit reports to PD form onward submission to PSC of the project.
- xi. Deploy professional audit staff with sufficient knowledge, skills, experience, and professional certifications to carry out audit of Project.
- xii. Communicate opportunities for improving management control, functioning and organization of Project to management.
- xiii. Report suspected fraud, investigation of significant suspected fraudulent activities within the Project, if any.
- xiv. Establishing an audit universe along with the risk universe.
- xv. Establishing / reviewing a Risk Management Framework (either COSO framework or otherwise).
- xvi. Establishing / reviewing the COBIT Risk Management Framework
- xvii. Preparation of Risk Register for the project.
- xviii. Determining / reviewing the overall materiality level and for each component of the project.
- xix. Applying cut-off procedures where deemed necessary.

3. Control Assurance Activities

- i. Review systems established to ensure compliance with applicable laws and regulations related to foreign funded projects.
- ii. Identify significant risks regarding ability of Project to meet its objectives, communicating them to management and ensuring that management takes appropriate action to guard against those risks.
- iii. Appraise economical and efficient use of resources.
- iv. Evaluate adequacy and effectiveness of Project's processes for controlling activities and managing risks.
- v. Review reports of external auditor, monitoring compliance against recommendations of auditors and report status to PD.

4. Project Activities / Processes where Internal Audit Firm should particularly focus include:

Financial Management: The firm shall perform a review of financial and internal control structure of the Project and report if they are in accordance with applicable international standards to determine adequacy of existing controls related to management of all funds received by entities. Additionally, the firm will assess the adequacy and effectiveness of all processes for controlling activities and managing risks for the components, including timeliness and accuracy of payments. The firm shall obtain sufficient understanding of entities' financial management system and provide evaluation of management control environment, accounting system and control procedures in order to determine adequacy of system to control and account for funds transferred to it.

Procurement Management: The firm shall review Project's procurement processes with an objective to provide assurance that they are effectively designed, in accordance with Bank's Procurement & Consultants Guidelines or World Bank Procurement Regulations for IPF Borrowers" dated Nov 2020. This will involve review of Project's procurement policies and procedures for procurement planning, avoidance of improper business practices and conflicts of interest, competitive procurement, ordering procedures, invoice examination policies and procedures to ensure payments are made only for works executed, goods received and services rendered.

Contract Management: The firm shall review Project's processes for contract management and administration to provide assurance that all parties to contract fully meet their respective obligations as efficiently and effectively as possible, delivering business and operational outputs required from contract and providing value for money. The firm shall carry out a detailed review of contract administration functions such as inspection and acceptance, agreement modifications, disputes, proper accounting and termination etc.

Quality Assurance: The firm 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 evaluation of conformance of Internal Audit activities with Institute of Internal Auditors International Professional Practices Framework (IPPF), Code of Ethics and best practices.

5. Professional Standards

The Internal Audit Function shall govern themselves by adherence to The Institute of Chartered Accountants of Pakistan' Code of Ethics. The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing shall constitute the operating procedures for the firm.

The Internal Audit Firm is expected to maintain the highest standard of:

Integrity: The firm is required to exhibit highest level of professional objectivity in gathering, evaluating, and communicating information about activity or process being examined. Makes a balanced assessment of all relevant circumstances and is not unduly influenced by its own interests or by others in forming judgments.

Confidentiality: Documents and information obtained by the firm will be handled in the same prudent and confidential manner as by those employees normally accountable for them. No information or document shall be shared with outsider or used by the firm otherwise than to achieve the objectives of internal audit.

Authority and Independence: The firm shall not perform the management function and would be independent in conducting all activities fall within the remit of the Internal Audit Function. The areas to be included or excluded for internal audit or the sampling method used would be based on the risk matrix prepared in this respect. The firm will have full, free and unrestricted access to Project's records, physical properties, personnel and other entities relevant to an area under review. The firm will have no responsibility for or authority over any activities or operations subject to its review.

6. Reporting Arrangements

For administrative and contractual matters, the Firm shall liaise with PD and shall be responsible for following reporting arrangements:

- Preparation and submission of Internal Audit Plan for the Project, before one month of the Audit activity.
- Agreeing on dates and schedule for internal audit.
- Discussion on the level of risks, areas where management needs support and time allocations to prepare internal audit plan.

- Submission of draft internal audit report, preferably within two weeks of completing each internal audit, giving an opinion on the area reviewed and making recommendations for improvement where appropriate.
- Discussion on draft internal audit report with the line managers responsible who will provide responses to the report, giving management comments and details of a plan of action with timescales for implementing recommendations (Audit exit meeting).
- Submission of final internal audit report incorporating management comments preferably within six weeks of completing the internal audit activity.
- Monitoring the appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared.
- Reporting on follow-up of internal audit recommendations for the Project.
- Reporting on follow-up of external audit recommendations.
- Follow-up on directives of PSC.

7. **Timeline:**

Assignment : Long term consultancy
 Duration : 02 years (extendable)
 Commencement : July 2023

8. **Deliverables:**

- a). Risk based Internal Audit Plan
- b). Bi-annual Internal Audit Reports for all segments, including PMU-BoR and PIU-PLRA (twice a year)
- c). End of Assignment Report

The structure of the Internal Audit Report will be as follows:

- a. Introduction
- b. Audit objective and scope
- c. Background
- d. Executive summary, highlighting significant findings
- e. Segment wise detailed Audit findings along with recommendations.
- f. Segregation of audit findings as per the severity of risk like High Risk, Moderate Risk and Low Risk.
- g. Determining the responsible person for corrective action
- h. Fixing the tentative time to complete the corrective action.
- i. Supervisory responsibility in case of items marked as High Risk and Moderate Risk.

9. **Qualification and Structure**

The firm should be a chartered accountancy firm registered in category A of State Bank of Pakistan's Panel of Auditors Firms with satisfactory ICAP QCR rating. The firm should have a specific and proven competence and experience in conducting internal audit of Foreign Funded

projects of similar nature for past ten (10) years. Experience of implementing, managing, and providing support regarding software solutions is a must. Experience of working on donor funded projects shall be accorded due weightage. They should have adequate number of professionals and well-equipped offices.

10. Selection Method

The Consultant will be selected through Least Cost Selection Method (“LCS”) in accordance with the procedures set out in the World Bank Procurement Regulations for IPF Borrowers" dated Nov 2020.