

# **INDEPENDENT ANNUAL AUDIT OF SIDA**

## **TERMS OF REFERENCE**

### **Background of the Project:-**

The government of Sindh has requested the funding from international development association (IDA) to implement Sindh water Sector improvement Project (WSIP). Sindh Irrigation & Drainage Authority (SIDA) would be the key implementation agency for the project. The expected project expenditures would be approximately US\$ 175 Million over a period of five years.

The overarching project objective is to improve the efficiency and effectiveness of Irrigation and Water distribution in three AWBs (Ghotki, Nara and Left Bank), particularly with respect to measures of reliability, equity and user satisfaction. This would be achieved by: (a) Deepening and broadening the institutional reforms that are already underway in Sindh: (b) improving the irrigation system in a systematic way covering key hydraulic infrastructure, main and branch canals, and distributaries and minors; and (c) enhancing long-term sustainability of irrigation system through participatory Irrigation Management and Developing institutions for improving operation and maintenance of the system and cost recovery. The improved water management would lead to increased agricultural production, employment and incomes over some about 1.8 million ha or more than 30 percent of the irrigated area in Sindh, one of the poorest regions of the country.

The following are the major components of the project:

- A. Community Development and Capacity Building.
- B. Improvements of the Irrigation and Drainage System
- C. Management Plan for major Irrigation and Drainage infrastructure.
- D. Project Monitoring, Evaluation and Supervision of Environmental Management Plan
- E. Project Coordination, Monitoring, Technical Assistance and Training.

### **Objective of the Audit:**

In addition to being primarily responsible for the conduct of the audit of entity's annual financial statements, the independent auditors of SIDA would also be required to examine the internal controls and compliance with the agreed upon procurement procedures to ensure transparency and accountability in SIDA's overall operations as well as specifically on the use of IDA Finance

under WSIP. During any reporting period, the auditors would, therefore, be required to submit the findings of their assurance review as a separate report to management and the World Bank in addition to their opinion on the annual financial statements.

### **Scope of Work.**

SIDA is an independent provincial authority established under the Sindh Water Management Ordinance 2002 having a board chaired by the Minister of Irrigation and Power Department (IPD). SIDA is required under the section 22 of the Sindh Water Management Ordinance-2002 'Annual Accounts and Balance Sheet' – to adopt the International Accounting Standards and other standards as adopted by the Securities and Exchange Commission of Pakistan. The use of International Accounting Standards is also consistent with the World Bank's Guidelines.

The Financial Statement upto fiscal year 2009-10 have been audited by an independent firm of Chartered Accountants. The auditors, now appointed, would be responsible for the conduct of audit of FY 2010-2011, 2011-2012 and 2012-2013.

Keeping in view the overall objective of the audit, the auditors would mainly be responsible to:

Carry out the statutory audit of the annual financial statements and express an opinion on the financial statements. The exact scope of work in respect of the annual audit of the financial statements is determined by the International Standards on Auditing. However, it is highly desirable that auditors become familiar with the relevant World Bank 'Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities', which explain the Banks financial reporting and auditing requirements.

Conduct a comprehensive assurance-review including the examination of the overall internal controls in SIDA and more specifically the compliance with the agreed upon procurement procedures in respect of activities financed under WSIP. The activity would be virtually concurrent to the project activities to enable the auditors to provide an interim report within 45 days after the completion of first half of the year. The interim report together with the management response to audit observations and follow-up actions taken to date would form part of the final report for each year. The unresolved audit observations would be rolled over for follow-up to the next year's reports to institutionalize a continuous process of improvement within SIDA. Detailed ToRs for this activity are given below.

## **Terms of Reference for the Assurance-Review Activities: -**

While carrying out the assurance-review of SIDA (including WSIP related expenditures made by PCMU, PMC/A and 03 AWBs), the auditors would:

1. Evaluate the internal control environment;
2. Review the accuracy, timeliness and relevance of the financial and other information that is provided to SIDA Management;
3. Examine the manner risks are identified and managed;
4. Recheck a sample of transactions to examine their processing, supporting documents, accounting and reporting steps.
5. Monitor the compliance with the applicable accounting standards and procedures applicable under the Financial Management Manual for accounting of WSIP transactions;
6. Examine whether the IDA funds for WSIP are used for the purposes intended and report on the lack of compliance of each financial covenant in the relevant financing agreement;
7. Broadly validate the assets are used for the purpose they were acquired for, and perform or observe physical verification of assets;
8. Assess the extent to which assets have been safeguarded against any impairment, damage or loss;
9. Identify cases of extraordinary delays in payments, duplicate payments and other irregularities, as the case may be;
10. Examine the grievance redressal procedures both as designed and as practiced, and recommend an efficient process to clear all pending payments/ returns;
11. Assess the adequacy and efficiency of HR process and identify any major shortcomings having significant impact on staff's ability to optimal performance;
12. Check whether the procurement procedures outlined in the project procurement manual, procurement Guidelines and Credit Agreements of the Sindh Water Sector Improvement Project are followed, and applicable government procurement rules are followed in case of procurements under the project financed by government funds.
13. For a sample of contracts financed under the Sindh Water Sector Improvement Project, the key elements will be to:
  - (i) Verify eligibility;
  - (ii) Verify compliance with the Bank's procurement procedures or the government applicable rules as indicated in the legal documents. For this purpose a checklist should be completed for each contract reviewed. The sample should focus on the contracts subject to the Bank's post review; however a few prior review contracts would also be covered. When deviations or judgment as exercised, the Auditor must comment on whether these were reasonable. The auditors will also identify contracts with serious deviations warranting consideration for declaring misprocurement;
  - (iii) Establish whether the documentation and record keeping system that are in place are adequate for ensuring the World Bank's post review requirements. For example, whether records are systematically maintained and are acceptable. Also identify general issue related to the procurement process and systems with recommendations for improvement.

- (iv) Verify whether goods and works exist at intended locations and are being used for the purposes they were acquired.
- 14. Make recommendations on the systems, procedures and contracts reviewed and report on the findings and recommendations.
- 15. Monitor management's response and implementation and follow-up to determine adequacy of corrective actions;
- 16. Other assurance-review activities as may arise.

(Note: - The sampling should be done in way to provide at least 95% confidence level for the conclusions and recommendations. The audit report should provide clear assurance to the SIDA Management on use of funds while quantifying any issues, to the extent possible.)

**Deliverables: -**

- 1. Interim Assurance Review – Interim Report, based on first half of the fiscal year (within 45 days after the completion of six months, i.e. February 15 each year)
- 2. Final Assurance Review – Draft Final Report (within 60 days after the completion of a fiscal year, i.e. August 31 each year)
- 3. Final Assurance Review – Final Report (within 6 moths of close of the fiscal year, i.e. December 31 each year)
- 4. Audit opinion on the annual financial statements. (within 6 moths of close of the fiscal year, i.e. December 31 each year)

**Qualifications and experience of the firm: -**

The accounting firm for the external audit shall be selected from amongst the list of firms having satisfactory rating under the Quality Control Review program managed by the Institute of Chartered Accountants. The firm should have considerable experience of conducting assurance reviews.

**Key personnel and level of effort required: -**

<b><u>Sr.#</u></b>	<b><u>Indicative Position</u></b>
1.	Team Leader/ Lead Auditor
2.	Internal Controls Specialist
3.	Procurement and Contracting Specialist
4.	Audit Seniors / Staff

A brief description of the personnel qualification and experience is given below: -

**Team Leader/ Lead Auditor :-**

The incumbent should be a Chartered Accountant with at least 5 years of post qualification experience. The experience should include experience of both statutory audits as well as special purpose assurance assignments.

### **Internal Controls Specialist: -**

The incumbent should be a Chartered Accountant with at least 5 years of post qualification experience. Having an additional qualification in internal auditing e.g. 'Certified Internal Auditor' would be a plus. The relevant experience should include assurance assignments including fiduciary reviews, due-diligence, business process reengineering/ improvement, information systems design/ evaluation, internal controls assessment, risk management etc.

### **Procurement and Contracting Specialist: -**

The incumbent should have a post-graduation degree in a relevant discipline with at least 10 years experience of monitoring and/ or managing contracts. The experience in the procurement of goods, civil works, engineering and management consultancy would be relevant to the position.

### **Audit Seniors/ Staff: -**

It is expected that Audit Seniors/ Staff would include a balanced composition of qualified and part-qualified accountants/ Auditors trained in the specific audit methodology and documentation standards used by the firm.

### **Code of Ethics: -**

Following the IFAC- Code of Ethics, the Auditing firm is expected to maintain the highest standards of:

**Integrity:** The integrity of auditors establishes trust and thus provides the basis for reliance on their judgment.

**Objectivity:** The auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. External auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by other in forming judgments.

**Confidentiality:** External Auditors respect the value and the ownership of information they received and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

**Competency:** The auditors apply the knowledge, skills and experience needed in the performance of auditing services.