

## **Terms of Reference**

### **Continuous audit and verification of assets under Community Driven Local Development Policy/District Governance and Community Development (DGCD) Programme in six districts of Malakand Division, Khyber Pakhtunkhwa**

#### **1. CDLD/DGDC General Objective**

The Government of Khyber Pakhtunkhwa has launched the DGCD Programme with funding from European Union, under its Community Driven Local Development (CDLD) Policy to integrate community-led development approaches in the mainstream development planning and implementation. The Programme will cover six districts of Malakand Division (Swat, Shangla, Chitral, Dir Upper, Dir Lower, and Malakand) where grants will be provided for community-led rural development interventions at the local level. The main Objectives of the CDLD Policy are to:

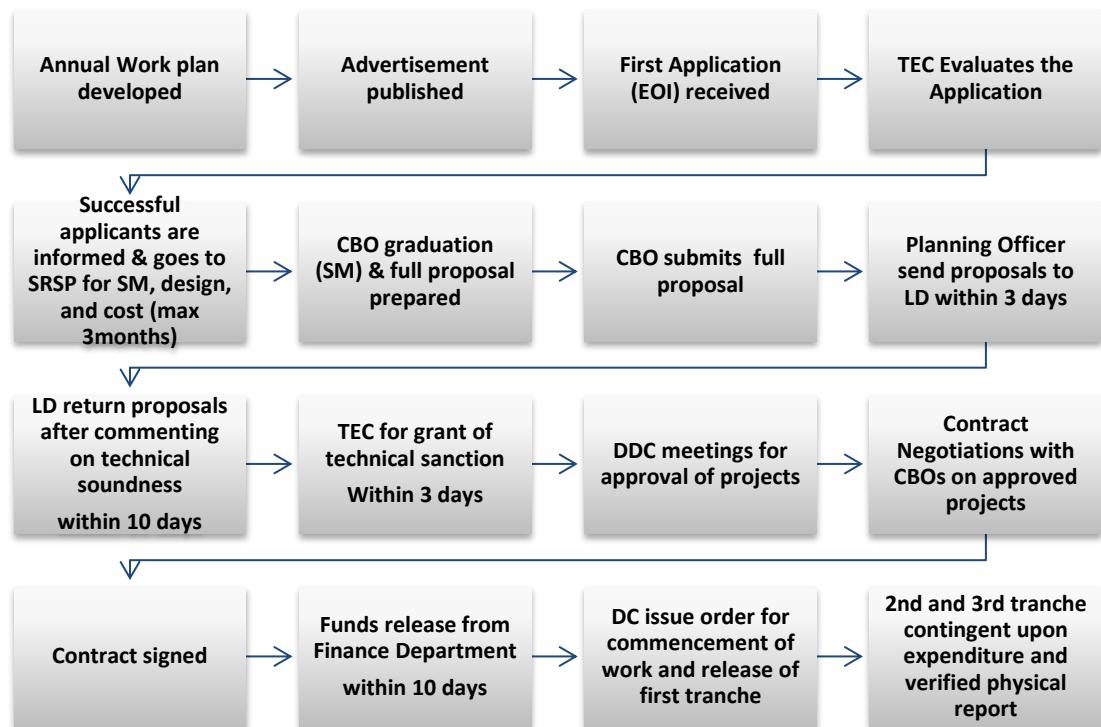
1. Put in place a fiscal and regulatory framework for CDLD where local communities are in charge of executing local development/ service delivery initiatives
2. Build capacity of the relevant public sector entities and functionaries at the district level to operationalize CDLD
3. Provide an enabling environment for CBOs to access public funds embarked for CDLD initiatives

The main objective of the DGCD Programme is to support the GoKP's efforts to improve service delivery, economic growth and local governance through promotion of community driven development in the crisis-affected Malakand Division. This will be achieved through increased investment in community development responding to identified service delivery and community infrastructure needs (development, rehabilitation, expansion and maintenance of community social and productive assets and infrastructure). The Programme will also strive to achieve enhanced human, technical and organisational capacities of district and tehsil government agencies to support community-driven development.

#### **2. Implementation arrangements of the Programme**

This 64M Euros programme is primarily financed by the EU through a budget support modality to which Government of KP will add its own contribution. LGERD Department will have the overall responsibility for managing the Programme and the District Governments will implement it in their respective districts under the leadership of Deputy Commissioners (DC). The District Development Committee, headed by the DC, will approve the CDLD project proposals submitted by CBOs in response to advertisements. This will be done through a well-defined and transparent procedure that has been outlined in a detailed notification (No. FD/EU/CDLD/1-1/2013 dated August 15, 2014) issued by the Finance Department (copy attached). The successful CBOs will be contracted by the DC to implement these projects, and payments will be released as per agreed schedules and

against measured progress except initial advances that will be made at the start of the project. The notification clearly spells out the roles and responsibilities of all relevant government offices in implementation of the Programme. The following diagram delineates the implementation process:-



**Legend:**

TEC: Technical Evaluation Committee

LD: Line Department

DDC: District Development Committee

DC: Deputy Commissioner

CBO: Community Based Organization

### 3. General Objectives of the audit

LGIRD Department, Government of Khyber Pakhtunkhwa wishes to engage a suitably qualified audit firm to undertake the continuous audit of the use of the DGCD funds and verify assets contracted to be created by the CDLD projects under the DGCD funding, including the government share. The purpose of the audit is to get an independent and objective assurance that DGCD funds have been spent for the intended purposes, ensuring value for money, and also suggesting course correction in project management at the district and provincial level

### 4. Specific objective of the Audit

The specific objectives of the audit are to ensure that internal control procedures are in place; principles of due diligence are complied with, the risk of fraud is minimised;

quality infrastructure is built; and recommendations are provided in the light of the audit findings to improve effectiveness of risk management arrangements in various governance processes.

## 5. Scope of the Services

The audit firm would be expected to come up with a detailed audit plan based on the accepted principles of audit including performance and compliance audits. The audit team would also carry out physical visits of a representative sample of the CBOs projects. The visits to the sample projects shall be at least once during the implementation phase of the projects. The visits shall be planned in such a way that the maximum activities of the implementation of the projects cycle are captured during the survey/inspection. The visit of engineers for asset verification shall be planned to coincide with the critical stages of construction and will verify the quality of work and quantity of materials as per the specification and standards given in the approved design.

The audit will present their findings and an analysis of the external and internal contexts that could impact achievement of the planned results and will identify practical lessons and recommendations to facilitate Government of Khyber Pakhtunkhwa for making course correction and adjustments in the Programme implementation.

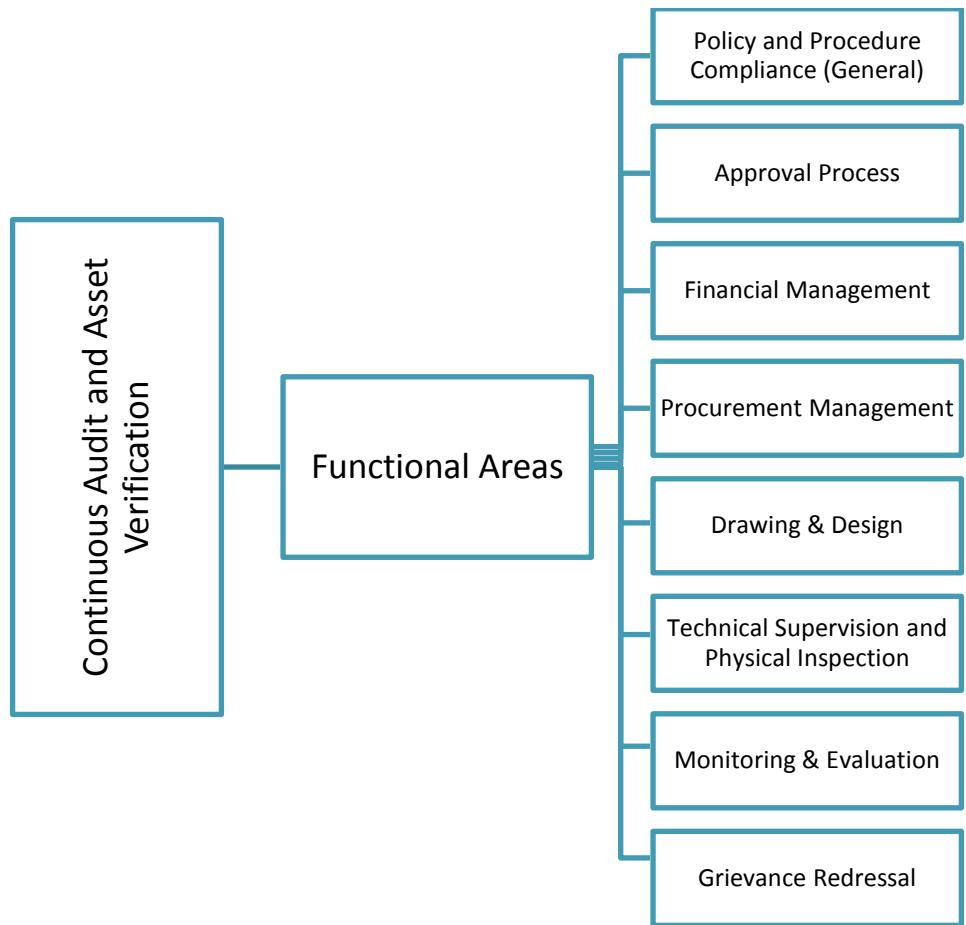
The audit firm is required to cover at-least 40% of the project sites in each district, selected through standard sampling techniques; ensuring even coverage of various geographic areas and sectors in the districts. The expected number of district-wise projects/ CPIs (Community infrastructure projects) to be implemented during the life of the DGCD Programme is given below:

	FY2014-15	FY2015-16	FY2016-17	FY2017- 8	Total
Number of CPIs	105	1,795	1,951	2,195	<b>6,046</b>

**District wise number of CPI**

District	Number of CPIs
<b>Swat</b>	1,696
<b>Malakand</b>	736
<b>Shangla</b>	912
<b>Lower Dir</b>	1,074
<b>Upper Dir</b>	1,039
<b>Chitral</b>	589
<b>Total</b>	<b>6,046</b>

Continuous audit and asset verification aims to determine the following at Government and CBO level:



Continuous audit and asset verification aim to cover the following stages/processes at the government and CBO levels:

	Functional Area/Performance indicators <sup>1</sup>	Government		CBO
		Provincial Government	District Government	
1	Policy and Procedure Compliance (General)	Verify that all relevant policies and procedures (rules and regulations) and contractual obligations have been adhered to	Verify that all relevant policies and procedures (rules and regulations) and contractual obligations have been adhered to	Verify that all relevant policies and procedures (rules and regulations) and contractual obligations have been adhered to
			District Development Strategy (DDS) has been adopted, approved and is updated at least-	

<sup>1</sup> Performance indicators shall be read in conjunction with Appendix-1 of the Financing Agreement signed between the EU and the GoKP for the DGCD Programme and reported accordingly.

			annually	
		Based on various reports strategic decisions are taken for the improvement of the CDLD Policy	Regular meetings of DDC and TEC are held	
		Periodical review of CDLD policy and framework based on Quarterly feedback		
		80 percent of the continuous audit findings are responded to within the time frame set (this is relevant from second round of audit onwards_	80 percent of the continuous audit findings are responded to within the time frame set (this is relevant from second round of audit onwards_	
<b>2</b>	<b>Approval Process</b>			
	Expression of Interest		Invitation to EOI is made according to the prescribed procedure	
			EOI is received, scrutinized and evaluated as per specified procedure	
	Data base of applicants		District uploads status of the applications on CDLD/DGCD website.	
	Social Mobilization & Eligibility		All viable EOIs presented by CBOs that have not gone through the process of social mobilisation will be passed on to SRSP for social mobilization training of the CBOs and assistance with proposal preparation	Fulfils the eligibility criteria as defined in notification
			Social mobilization criteria have been	Is socially mobilized, records for meetings

			verified and checked	etc. Verified
	Proposal		Proposals are duly received within stipulated time	
	Line Department Comments		Relevant Line Department has provided comments	
	Technical Evaluation Committee		TEC's meetings have evaluated submitted proposals as prescribed and submitted recommendations to DDC. TEC has performed duties as per prescribed procedure	
	District Development Committee		DDC meetings, with required quorum, held as prescribed to consider recommendations of TECs and LD reports. DDC has performed its duties according to approved procedure	
	Contracting and FD intimation		Contracts with CBOs are negotiated and entered into transparently and in accordance with prescribed procedure.	
		Approval received from FD within stipulated time	List of approved contracts are submitted to FD	
	Reporting	District wise report on overall quarterly assessment of successful proposal over total applications including percentage of successfully approved	District wise report on overall quarterly assessment of successful proposal over total applications including percentage of successfully approved projects vs. completed	

		projects vs. completed		
<b>3</b>	Financial Management	Proper record for district wise allocation of funds and their release is maintained as specified	Proper record for VC/NC wise fund allocation/ release and balance is maintained as specified	
			District Development Strategy prepared, highlighting budget projections, resource allocation and prioritization of development projects	
			Maintain proper project wise record. Including funds requisition, progress reports, contracts, audit reports, visit reports etc.	Books of accounts and records, as specified, are maintained and updated regularly, related to project
		Programme funds have been approved at the correct level of delegated authority	Payments made to CBOs are properly authorized and on "Simple Receipt" format	Transparency and authorization in financial expenditures is maintained
		Funds related to DGCD are transferred to district government within stipulated time	Progress payments are made according to the contract and milestones achieved, and on the basis of engineer's certificate within stipulated time	CBO's share whether in kind or cash is properly accounted for in the project
			Verify that district government has taken measures to ensure that CBO's share whether in cash or in kind has been provided.	
	Districts budget/releases	Report on annual budget allocation, incremental	Rate of disbursement for allocated budget every year at provincial and district	

		increase in both recurrent and development budgets	level	
4	Procurement Management			Transparency is ensured while material, labour and overhead procurement is done by verifying that proper record for minutes/ resolutions for decisions are maintained.
5	Drawing & Design			Designs and drawings are as per engineering standards and defined procedures
			Project cost estimates are reasonable and approved by the competent authority	Cost estimates are as per market rates of GoKP or as specified
6	(A) Technical Supervision and Physical Inspection		Technical/engineering assistance/guidance was available at critical construction stages as agreed in the contract	Technical/engineering assistance/guidance was available at critical construction stages as agreed in the contract
			Pool of engineers hired as per Government policies and procedures	
			Authorised engineer has certified the milestone achievement correctly	Physical inspection/verification of work done has been done as per CBO and Government records
			Reports for each inspection is prepared, submitted and uploaded in the system	Civil works are executed according to the specifications of the approved design and drawing
			Government Engineer has verified quality and other standards	Quality of works has been maintained as specified in contract

			have been observed	
	(B) Physical verification of asset created as per the detailed list in MIS		New infrastructure projects are inventoried in MIS at accurate cost and coordinates locked with GIS	
7	Monitoring & Evaluation	Identification of key learning (gaps, failures, areas of further improvement) and action points are made and corrective measures are recommended and key achievements are highlighted	Effective and efficient M&E system is adopted	Assess the effectiveness of the monitoring system/ mechanism adopted by CBO for physical monitoring of the projects
			Based on periodic M&E reports and third party continuous audit quarterly feedback is provided to CDLD Coordination Unit	
			Monitoring plans are prepared and implemented as specified	
			All projects are supervised and certificates for progress payments issued by engineers as notified by Government	
			Monitoring reports are prepared, issues are reported and resolved within stipulated time	
			Periodic physical and financial progress of	

			the schemes is undertaken and discussed at competent forum	
<b>8</b>	Grievance Redressal	Effective system of grievance redressal is maintained by Commissioner's Office		
		Records for all complaints along with their resolution are maintained		
		Periodic progress meetings with FD/DCs held		

## 6. Expected Results of the Assignment

The broader results expected from the assignment under the overall ambit of CDLD policy are;

- A reasonable assurance that the DGCD funds were allocated, released and used for the purposes intended and used efficiently and economically, along with a clear opinion on the effectiveness of the grant management arrangements and compliance with funding agreement with EU
- Statement on value addition and quality of the infrastructure for service delivery to impact overall socio-economic conditions of the target community and grassroot infrastructure
- Statement on existence and application, of internal control/governance environment, consistent systems and procedures, sufficient segregation of duties and identification of any weaknesses. The entities to be subjected to this evaluation will include:
  - District administrations – invitation, receipt and evaluation of proposals; contracting with CBOs; payment of advances and subsequent instalments and maintenance of project accounts; and monitoring of project's progress
  - CBOs – project management, procurement management including quality assurance, and accounts maintenance
- Statement on major deviations observed and recommendations for strengthening of financial management and internal controls to improve robustness of the system and to reduce fiduciary risks

## 7. Methodology

The suggested audit methodology is given as under:

- a. A comprehensive audit plan will be prepared by the firm covering audit plans for individual districts.
- b. Audit will be conducted in accordance with ISA (International Standards on Auditing) and under the framework suggested by IPSASB (International Public Sector Accounting Standards Board)
- c. Review/assessment of the relevant programme documents maintained by CBOs and Government
- d. Interviews and meetings with the stakeholders, partners and implementing departments
- e. Visits of the CBOs project sites and physical inspection of records, GIS pictures and proofs and related items.
- f. The audit sample will be selected on the basis of risk profile of the commissioned projects, taking into account factors like value of the projects (all projects with estimated cost of more than Rs. 1 million), remoteness etc. The sample size will not be less than 40% of the total projects.
- g. Separate certification will be provided on control environment in CBOs and concerned government entities.
- h. The firm shall also verify, through a team of engineers, the existence of assets, their compliance with design and material specifications. There shall be a separate section in the report dealing with asset verification aspect

#### **8. Composition and Qualification of the Audit Team**

The firm registered with ICAP having satisfactory QCR rating and at least ten years of experience. The firm should be on the panel of state bank of Pakistan with A rating.

#### **9. Period of Performance, Level of Effort and Payment**

The exercise will be undertaken simultaneously in all the six programme districts and shall be in the form of continuous rolling audit, ensuring that at least 40% of the projects are audited, with a certain minimum percentage of high risk projects, with under observation status, receiving a repeat audit treatment. The audit reports will be generated on a quarterly basis and submitted to the DDCs and the CDLD COORDINATION UNIT for review and perusal of the PCRC. The audit shall start in a district immediately after the first contract is signed by the district government with a CBO. The audit firm shall prepare their audit plan for the district and share that with the DO F&P and CDLD Coordination Unit.

#### **10. Criteria for the Evaluation of Technical Proposals**

Technical proposals deviating from the evaluation requirements (as given in below table) shall be considered non-responsive and excluded from further consideration.

Bidders should:

- I. Structure their technical proposals according to the evaluation criteria given below; and,
- II. Include in a cover letter, showing total cost of the offer and cost per project.

The technical proposal should consist only of the following sections in the sequence indicated below:

- a. The corporate capability of the organisation, covering similar experience over the last 7 years.
- b. A management plan (including a robust sampling design for covering maximum number of sites/interventions in the target areas) and CVs of the persons designated by the bidder for this purpose;
- c. Details of the organisational structure in Malakand division, including Swat, Shangla, Malakand, Dir upper, Dir Lower and Chitral districts to implement the audit and asset verification exercise; and,
- d. The CVs of key experts (engagement partner, audit manager, audit supervisor and engineers for each district specifically) proposed for the completion of services. The estimated number of experts required for completing the services along with their profiles in time. Replacement of Key experts will be allowed only in exceptional circumstances with equally capable / qualified personnel.

Responsive technical proposals will be evaluated, by a Procurement Committee nominated by Government of Khyber Pakhtunkhwa. The evaluation criteria and weightings are given below:

S/No	Evaluation Criteria	Weightage (%)
1	<b>Corporate Capability Covering the Last Seven Years Similar Experience</b>	
1.1	Overall experience with audit of government departments at federal, provincial and district levels	5 10
1.2	Experience of similar audit assignments, spread over wide geographic areas	5
2	<b>Proposed Personnel</b>	
2.1	Team Leader	10
2.2	Overall Manager of Engineering Component	8
2.3	Other Audit Team (engineering & audit)	17 35
	Note: The above marks would be allotted based on <ul style="list-style-type: none"> <li>a. Experience in undertaking similar audits</li> <li>b. Other relevant experiences with the government departments (federal, provincial and districts)</li> <li>c. Qualification</li> <li>d. Experience in Khyber Pakhtunkhwa and Malakand Division</li> </ul>	
3	<b>Methodology</b>	55

	3.1	Measures proposed by the bidder for assuring independence, objectivity, quality audit documentation, audit processes, including sampling, and internal controls over audit	10	
	3.2	Measures proposed to ensure the effective coordination between the asset verification exercise and other audit components	10	
	3.3	Detailed Audit Methodology (except geographical coverage) to be used in the Audit	20	
	3.4	Methodology for geographical coverage of simultaneous schemes in all tehsils of six districts	15	
	<b>Total</b>			<b>100</b>

Financial cost may be submitted as indicated below:

District	Number of CBOs @40% sample size	Cost of audit per CBOs (without government level audit)	Total audit cost for CBOs @40% sample size	Cost of government level audit	Total cost of audit for the programme (PKR)
A	B	C	D=B x C	E	F=D+E
Malakand					
Swat					
Shangla					
Dir Lower					
Dir Upper					
Chitral					
<b>Total</b>					

Minimum qualifying marks for technical proposal will be 50%. Weightage for combined technical and financial evaluation will be as under:

- Weightage for Technical proposals @60% and
- Weightage for financial proposal @ 40% respectively.

## 11. Governance and Management of the Assignment

The contract will be governed by the procurement rules and arbitration guidelines of the Government of Khyber Pakhtunkhwa. For all operational and management purposes, the selected firm will seek guidance from the CDLD Coordination Unit of the LGED Department.

The strategic and programmatic guidance will be provided by PCRC. The adherence to the schedule and progress towards completion of the periodic work will be monitored by the CDLD Coordination Unit on fortnightly basis.

## **12. Deliverables**

The selected firm will be required to prepare and submit the following:-

<b>S.No.</b>	<b>Deliverables</b>	<b>Timeline</b>	<b>Frequency</b>
1	Inception Report presenting <ol style="list-style-type: none"> <li>1. Overall methodology to be used, including audit strategy</li> <li>2. Work plan</li> <li>3. Formats for Reporting/tools for data collection</li> </ol>	Within 15 days of signing of contract	Once each financial year
2	Early warning reports	Not later than 15 days of visit	After each relevant visit
3	Consolidated Quarterly and adhoc report on an agreed format to be submitted	30 days of close of quarter	Quarterly or adhoc basis if required
4	Annual Review report to be submitted to the PCRC <ol style="list-style-type: none"> <li>a. Recommendations for policy, management and service delivery</li> <li>b. Lessons learnt (based on performance indicators)</li> </ol>	Not later than 40 days of the close of programme year	Annual

Note: An e-dashboard/web based information may also be provided to CDLD Coordination Unit for Continuous Audit activities.

With each audit report the auditor shall provide

- Clear expression of opinion on items identified in Section 4, 5 & 6
- Details of ineligible expenditures identified during the audit

## **13. Communication with Governance Responsibility:**

The Coordinator, CDLD Coordination Unit of LGERD Department will be responsible for the communication of the comments and feedback of the Working Group members to the selected firm for the finalisation of the Continuous Audit and Asset Verification Report.

- The Audit Firm will be required to submit reports to:
  - LGERD Department, CDLD Coordination Unit, PCRC, relevant Line Departments and Deputy Commissioners for all the audit reports and timely corrective measures to be undertaken

- Coordinator, CDLD for all administrative matters
- The Audit Firm, for the smooth discharge of its assignment, will provide necessary support and shall work in close coordination with the respective line departments, social mobilizers and technical assistance teams supporting the whole process.