



Karachi Water & Sewerage Services Improvement Project (Project Implementation Unit)



Karachi Water & Sewerage Corporation

40-G, Street 40, Block 6 PECHS, Karachi, Pakistan

Telephone: +92-21-34374081, +92-21-99330279

Terms of Reference for Internal Audit Firm for KWSSIP

Background:

The Karachi Water and Sewerage Corporation (KWSC) is responsible for the provision and management of water supply and sewerage services in the city of Karachi, Pakistan. To support reforms of KW&SC along with its project management while securing sustainable water supply and sewerage services, the World Bank and AIIB has financed Government of Sindh under the Karachi Water and Sewerage Services Improvement Project (KWSSIP). The project aims to enhance the quality, efficiency, and sustainability of water and sewerage services in Karachi, ensuring better access to clean water and improved sanitation for the residents. The total financing under KWSSIP-2 is PKR 167,100 million.

To ensure efficient resource utilization, regulatory compliance, and transparent reporting. The Internal Audit Firm will play a vital role in strengthening financial controls, assessing risks, and ensuring accountability during project implementation.

The project's financing will come from various sources, including government allocations, development loans, grants, and potential public-private partnerships. The internal audit firm will oversee the financial aspects of the project, ensuring the appropriate and efficient use of funds from all sources of only the financing under KWSSIP-2.

1. Core Responsibilities:

The responsibilities of the Internal Audit Firm include:

- Conduct a control risk assessment, analyzing the risks inherent in each significant project activity, mitigating control processes, and any residual risks to the project.
- 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 or external auditor.
- Finalize the plan with Finance Manager and submit to Deputy Project Director (I) for review and approval.
- 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 DPD.
- Perform advisory services, beyond assurance services, to assist management in meeting Project's objectives, where required.



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- Evaluate and monitor disposition of 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 PD.
- Communicate results of Internal Audit and recommendations for improvement to the Project Director.
- Obtain written management responses as to corrective action planned or taken within a specified time from issuance of audit reports.
- Physical verification of a sample of project assets as recorded in the project financial statements.
- Verification of the payment cycle, including verification of a sample of beneficiary lists, and payments made.
- Issue internal audit reports to Project Director and, Gos.
- Employ professional audit staff with sufficient knowledge, skills, experience, and professional certifications to carry out audit of Project.
- Communicate opportunities for improving management control, functioning and organization of Project to management.
- Report suspected fraud, investigation of significant suspected fraudulent activities within the Project, if any, and notify the PD of results.

Control Assurance Activities

- Review systems established to ensure compliance with laws and regulations.
- Identify significant risks to ability of Project to meet its objectives, communicating them to management and ensuring that management takes appropriate action to guard against those risks.
- Appraise economical and efficient use of resources.
- Evaluate adequacy and effectiveness of Project's processes for controlling activities and managing risks.
- Perform early entry engagements to assist management in incorporating an adequate control structure in new systems and processes.
- Review reports of external auditor, monitoring compliance against recommendations of auditors and report status to PD.

Financial Management: The firm shall perform a review of financial and internal control structure and report if they are in accordance with international standards to determine adequacy of existing



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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 each component, including timeliness and accuracy of all payments. The firm will perform detailed verification of the assets transferred / procured to KWSSIP. 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. (July 2016) revised November 2017 & August 2018 (as applicable). 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. The firm will also liaise with External Audit Firm including provision of internal audit reports, discussion on Project risks and compliance with recommendations.

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.

2. 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 those employees normally accountable for them. No information



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or document shall be shared with outsider or used by the firm otherwise than to achieve the objectives of internal audit.

Authority and Independence: All the firm's activities fall within the remit of the Internal Audit Function. This does not imply that all areas will be subject to review, but that all will be included in the audit risk assessment. 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.

3. 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
- 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, within one week 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.
- Submission of final internal audit report incorporating management comments.
- 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.
- Attending meetings where internal audit reports are discussed.
- Follow-up on directives of PD.

4. Timeframe of Assignment

The contract is expected to begin in one week after contract signing and will run until the project closing date, i.e., December 2030. However, depending on operational requirements these dates may be revised.



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5. Deliverables

Deliverable	Frequency
Internal Audit Plan (risk-based audit plan covering financial, procurement, contract management and operational areas)	Annual (at the beginning of each financial year)
Internal Audit Reports	Bi-annually
Follow-up Report on Implementation of Audit Recommendations	20 days after submission of internal audit reports
Follow-ups on Auditor's Comments and preparation of Working Papers for Audit / review meetings	As and when required during the contract period
Special / Thematic Audit Reviews (procurement, contract management, asset management, safeguards etc.)	As requested by the client
Review of Internal Controls, Financial Management Systems and Compliance with donor/government procedures	Included in each audit cycle
Consolidated Annual Internal Audit Report summarizing key observations, risks and recommendations	Annually

* For the current FY, the Audit Plan shall be shared within the first month of the firm's onboarding.

6. Qualification and Structure

The firm should be a Chartered Accountancy firm registered in Category "A" of the State Bank of Pakistan's Panel of Auditors Firms with a satisfactory QCR rating. The firm must possess demonstrated competence and experience in conducting internal audits of large projects of similar nature for at least the past ten (10) years. Experience of working on donor-funded projects will be accorded due weightage. The firm should have adequate professional staff and well-equipped offices to undertake the assignment effectively.

Selection Method

The Consultant will be selected through Consultants Qualifications Selection ("CQS") in accordance with the procedures set out in the Procurement Regulations for IPF Borrowers (September 2023)