

Terms of Reference

Appointment of Internal Auditor for National Cyclone Risk Mitigation Project II in the State of Gujarat

1. Introduction

Project Background

The Government of India has initiated National Cyclone Risk Mitigation Project (hereafter referred to as the 'Project' or 'NCRMP'), with a view to minimize cyclone risks in the coastal states of the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/ UTs.

Key objectives of the NCRMP are as follows:

- (a) Reduction in vulnerability of coastal states, through creation of appropriate infrastructure which can help mitigate the adverse impacts of cyclone, while preserving the ecological balance of coastal regions
- (b) Strengthening of cyclone warning systems enabling quick dissemination of warnings and advisories from source/district/sub-district level to the community for their timely reception and adequate response.

Project Components

Based on the above objectives, the Project has been divided into the following four components,

- (a) Component A - Early Warning Dissemination System ("EWDS"): Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs
- (b) Component B - Physical Infrastructure: Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs. Component B has following 3 sub components:
 - (i) Component B1 - Multi-Purpose Cyclone Shelters ("MPCS"): 128 MPCS are being constructed in 11 districts of Gujarat
 - (ii) Component B2 - Access Roads: 43 access roads of 156.69 km length are being constructed/upgraded in 8 districts of Gujarat

(iii) Component B4 - Underground Cabling (“UGC”): Total cable length is nearly 430.74 km

(c) Component C - Technical Assistance: Technical assistance for capacity building on hazard risk management. NDMA and National Institute of Disaster Management (NIDM) are the implementing agencies for this Component

(d) Component D - Project Management and Implementation Support (“PMIS”)

Gujarat has been included in the second phase of implementation of this project in India.

Proposed Implementation of NCRMP II/ Fund Flow Arrangement

The NCRMP is being coordinated by a central Project Management Unit (PMU) set up at NDMA. The participating States/UTs shall set up their respective Project Implementation Units (‘PIUs’). The PMU shall coordinate with NDMA, MHA, World Bank and other external agencies involved. The PIUs shall coordinate with the various line departments of the State Government/UT which will be finally responsible for execution of the Project work.

The external aid disbursed by the World Bank is first received by the Central Government in the Ministry of Finance (MoF). The funds are transferred to the State PIUs through the state treasury based on the status of their utilization of funds and other details as specified in the financial management manual. Expenditure under the Project will either be made centrally at the PMU or at the State PIUs. Both the PIU and PMU maintains regular books of account and records as per the prescribed procedures for every expenditure item.

2. Objective of hiring an Internal Auditor

The objective of the internal audit is to determine whether the project management aspects including procurement, financial management, physical progress monitoring and internal control mechanisms are working effectively. The auditor shall also identify areas for improvement and recommend ways to enhance efficiency. This should include aspects such as

- Adequacy and effectiveness of accounting, finance, procurement related and other operational controls, and any needs for revision;
- Level of compliance with established policies, plans and procedures;
- Reliability of accounting system, data and financial reports;
- Methods for remedying weak controls or creating them where there are none;
- Verification of assets and liabilities; and
- Integrity, controls, security and effectiveness of the operation of the computerized system.

The Internal Auditor shall provide the PIU and PMU with timely information and recommendations on the financial management, procurement, project management and physical progress aspects of the Project. This will support the management to take corrective measures, wherever necessary in a timely manner.

3. Scope of Audit Services

The audit will be carried out in accordance with the applicable professional standards & will include such tests & controls, as the Auditor considers necessary under the circumstances. Coverage of Internal audit of NCRMP II for all the districts where project is being implemented is mentioned below:

- Component A (EWDS)
- Component B1 (MPCS): Total 128 MPCS to be constructed in various districts of Gujarat
- Component B2 (Access Roads): Total 43 roads to be constructed/upgraded in various districts of Gujarat
- Component B4 (UGC): The total cable length is nearly 430.74km
- Component D (PMIS)

In conducting the audit special attention should be paid to the following:

(a) Procurement

- (i) Whether goods, works and services are being procured following the procurement procedures defined for the Project (Project Guidelines and the guidelines internal to PIU/PMU)
- (ii) Whether goods, works and services are being procured in accordance with the procurement plan and sanctioned budgets
- (iii) How are rates negotiated? Multiple quotations/auctions/tenders
- (iv) Is purchase order raised for every purchase by contractor? Is there a No PO No GRN policy? How are exceptions managed?
- (v) How are rate changes tracked?
- (vi) How evaluation of rejected material is done?
- (vii) Whether required documentation for procurement activity and contract management is being maintained for all purchases and other expenses made
- (viii) Whether capacities for procurement as indicated in the operations manual have been created

(b) Inventory Management

- (i) Whether there are any non-moving items which have not moved during a particular period
- (ii) Whether material requisition planning is being done

- (iii) Gate records: How is quantity verified on arrival, what are the weightment procedures etc.?
- (iv) Whether GRN is booked for quantity received as per gate records (weightment slips) and QC report
- (v) Whether FIFO is ensured
- (vi) Whether there are any gate controls to prevent unauthorized movement of inventory
- (vii) Whether physical verification of inventory is done periodically? Who carries out the verification and how are the differences accounted?
- (viii) Whether inventory valuation is done as per the applicable guidelines
- (ix) Whether monitoring of inventory sent on Returnable Gate Pass (RGP) is done

(c) Financial Management

- (i) Whether books of accounts are being maintained in the manner and formats defined by the financial management manual of the Project
- (ii) Whether the financial transactions are being accurately and completely recorded
- (iii) Whether utilization certificates and Interim Un-audited Financial Reports (IUFs) submitted are prepared in time and reflect the correct status of utilization of funds as recorded in the books of accounts of the Project
- (iv) Whether the fund management is being done in compliance with financial management guidelines of the Project
- (v) Whether funds have been used with due regard to economy, efficiency and for the purposes they were provided
- (vi) Whether release of money is adequately supported
- (vii) Special emphasis may be laid on items like:
 - Timely and accurate preparation of Bank Reconciliation Statements (BRS)
 - Maintenance of separate accounts for NCRMP II
 - Timely and accurate preparation of financial reporting statements
 - Surplus funds lying unutilized for long
 - Financial records and registers being maintained
 - Disbursement of funds to third parties

- (viii) Understand the process of tagging and maintenance of assets acquired under the Project. The auditor may perform physical verification of assets (if considered necessary)
- (ix) Whether capacities for financial management as indicated in the operations manual have been created.

(d) Others

- (i) Whether appropriate internal controls as specified by the financial management manual, operations manual, procurement manual and other relevant documents/ notifications, if any, are operating satisfactory. The auditor should suggest methods for improving weak controls
- (ii) Verify compliance with recommendations of the earlier audit reports and comment on requisite approvals obtained
- (iii) Support the External Auditor in understanding the observations and compliances mentioned in the internal audit report
- (iv) Any other assistance required by GSDMA

4. Reporting

The Internal Auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusion on the efficiency and effectiveness of systems, processes and controls.

Each report shall have the following sections

- (a) Introduction, objective, scope, nature and coverage of the audit including period covered, locations reviewed, work carried out, staff involved, level of coverage of all listed aspects
- (b) The Internal Auditor's opinion as to the overall adequacy of the systems of internal control
- (c) Key findings; separately for
 - Procurement
 - Financial Management
 - Project Management
 - Institutional aspects and others
- (d) Detailed internal audit findings, with adequate descriptions of weaknesses identified and the associated risk. This section will be supported with details, tables, annexures
- (e) Recommendations; separately for
 - Procurement

- Financial Management
 - Project Management
 - Institutional Aspects and Others
- (f) Responses to findings and recommendations by authorized persons stating the timeline for remediation and the person responsible
- (g) Progress on earlier set of recommendations and constraints faced
- (h) An executive summary highlighting the critical issues preferably classified as per thematic area.

The report should be discussed and agreed with the auditable units and should be structured to list the observations, the implications of the observations, the suggested recommendation and the management comments/agreed actions to be taken. The audit observations should be supported by instances and quantified, as far as practicable. Copies of all internal audit reports shall be made available to the external auditors, NDMA and the World Bank.

5. Timelines and submission of reports

The auditors will commence the audit immediately after the close of the half year, complete the audit and submit their audit report including semiannual opinion on the internal control system within 45 days from the end of the half year. The semiannual internal audit report will be addressed to the Director (Finance) GSDMA. Five copies of the report with all supporting documents will be furnished to the GSDMA, (PIU). The auditors will also provide soft copies of the audit reports to GSDMA.

6. Review Committee to monitor Internal Auditor's work

The Consultant's performance would be reviewed periodically and monitored through the audit reports. A review committee will be constituted to review the work of the consultant from time to time. Actions related to reporting shall be followed as per the schedule agreed with the Consultant, and shall be viewed as a major indicator of performance of the Consultant. Reporting activities should not be posed as an excuse for retarding the field activities by the Consultant at any point of time, under any circumstances. Any correction/ modification/ alteration to the deliverables suggested by the Review Committee/Bank/ PMU/ PIU shall be done promptly by the Consultant and resubmitted in the same manner within 15 days of intimation.

The Committee will review the internal audit report and send the action taken against the internal audit observations to the World Bank and NDMA.

7. Procedure for review of audit report

The Review Committee shall review the internal audit reports within 45 days from the date of submission of reports by the Consultant. Committee will then share the internal audit reports with the Roads & Building Department, Government of Gujarat for the compliances of the internal

audit observations. Roads & Building Department, Government of Gujarat will submit the internal reports along with the status of compliances against the internal audit observations within 30 days of receipt of internal audit reports. The final internal audit report along with the status of compliances submitted by Roads & Building Department, Government of Gujarat will be submitted to NDMA and the World Bank.

During the audit of next half year, Internal Auditor shall check the compliance done by the divisions and certify that compliance has been verified. If there is any incomplete compliance, it shall be reported in the next quarter audit report as pending compliance.

8. Qualification and team composition

The internal audit team must have considerable experience and expertise in conducting audits particularly on infrastructure development projects. The team must should be familiar with general financial and treasury rules & procedures and works accounting system, as well as government accounting and financial procedures. All the key team members will work as full time staff for the period committed by the Consultant. The Consultant should also have experience in the process and audit practices of the World Bank funded projects.

Team must have an Engagement Leader who will be responsible for the overall coordination & planning, team leadership, reporting, liaison with client, responsibility to lead the team, planning and execution of the audits, discussion with heads of offices at district / state units and reporting writing and finalization and presentation before Review Committee.

Consultant may propose an audit plan along with the team composition to be deputed for the project.

Note:

- (i) Knowledge of Gujarati is desirable as majority of the documents are maintained in Gujarati language

9. General

The Internal Auditor would be given access to all documents, correspondences, and any other information related to the project and deemed necessary.

10. Support/ Inputs to be provided by the State PIU

The Internal Auditor will be given access to all the legal documents, project's financial management manual, procurement manual, procurement check list, and any other unclassified information associated with the Project and deemed necessary. It is extremely important that the auditor becomes familiar with the Project guidelines on disbursements and procurements. All these documents will be provided to the auditor by the PIU/PMU.

11. Terms of payment

Payment to the auditor will be made on half yearly basis after submission of report fulfilling the requirement of the agreement and raising of bill as per rate mentioned in agreement.