

**Government of Uttar Pradesh**  
**Public Works Department**  
**Terms of Reference for Appointment of Firm to conduct Internal Audit**

**Name of Project:** U.P. Core Road Network Development Project (UPCRNDP)  
**Loan No.:-** 8940-IN

**Project Background:** GoUP has received financial assistance of USD 330 million (Revised) from the World Bank to implement UP Core Road Network Development Project. The Project implementation period is October 11, 2019 to June 30, 2025. The Project was provided a retroactive financing period from April 01, 2018 to October 10, 2019. The objectives of the Project are: (i) to build capacity for results-focused road safety management in Uttar Pradesh; and (ii) to improve traffic flows and safety for all roads users on selected corridors of the state's Core Road Network. The Project components and costs are as follows.

Project Components	In USD million			IBRD Share (percentage)
	Project cost	World Bank (IBRD) Financing*	GoUP Financing	
Component 1: Network Improvement	476.00	350.20	125.80	74
Component 2: Institutional Strengthening of PWD	3.00	2.10	0.90	70
Component 3: Road Safety				
3A: Home/Police	41.00	4.60	36.40	11
3B: Transport Department	14.00	7.10	6.90	51
3C: PWD	35.00	35.00	0.00	100
Component 4: Contingent Emergency Response (CERC)	0.00	0.00	0.00	-
Front end fees	1.00	1.00	0.00	100
<b>Total</b>	<b>570.00</b>	<b>400.0*</b>	<b>170.00</b>	<b>70</b>

\*USD 70 million was cancelled on November 04, 2020 from component 1, 2 and 3C. Revised WB financing is USD 330 million.

**Implementation Arrangement:**

- a) Components 1, 2 and 3C - implemented by PWD.
  - b) Component 3A - implemented by Home Department (Traffic Directorate)
  - c) Component 3B - implemented by Transport Department.
- The Component 1 (Network Improvement and Institutional Strengthening) is implemented by the PWD, through a dedicated Project Implementation Unit (PIU), headed by Chief Engineer (CE), Externally Aided Projects (EAP), established at the PWD headquarters (Lucknow). The PIU is responsible for procurement and overall project management, monitoring and evaluation. In addition, 3 Circles, headed by Superintending Engineers (SE) have been established for implementation of Phase 1 works– Lucknow, Kanpur and Moradabad Circles. Additional Circles will be established later for implementation of Phase 2 works for which DPRs are under preparation. The PIU is supported by consultants for project management, design, supervision of works and monitoring & evaluation.
  - The component 2 (institutional strengthening) and component 3C (Road Safety) is implemented by Institutional Development and Strengthening (IDS) Circle of PWD, created under the Chief

Engineer HQ1, headed by a SE. Within the IDS Circle, three divisions, headed by Executive Engineers have been established – Computerization, Asset Management and Road Safety.

- The Traffic Directorate, UP Police is responsible for implementation of component 3A - Dedicated Highway Police Service and Development of State-wide Crash database and analysis system. A dedicated Project Implementation Unit headed by the ADG (Traffic) has been created under the traffic directorate for project implementation.
- The Transport Commissioner, UP is responsible for implementation of component 3B through the proposed Road Safety Cell, being created through approved State Road Safety Policy.

**Financial Management Arrangement:** The Project is implemented using mainstream Treasury System of GoUP. A separate budget head is opened for this project in the Demand for Grants of PWD and funds are budgeted annually by GoUP. The PWD divisions are provided 'Cash Credit Limit' (CCL) to implement the works. The RA work bill is submitted by the contractor to the division for review and approval. A Project Management Consulting (PMC) firm is engaged by PWD as an independent engineer to monitor the quality, progress of work and to certify RA work bills. The bills approved by the divisions are submitted to the District treasury and payments are made electronically to the contractor. The payment made by the district treasury is accounted in the project budget line of integrated treasury system, GoUP (i.e. Koshvani). The field divisions of PWD maintain accounting records for civil work transactions. The project activities (other than for works) are approved centrally at PIU in PWD headquarters and payment is made by Treasury directorate in lucknow. The procurement of all project activities is done centrally at PIU in PWD headquarters.

**Procurement arrangement:** Procurement is carried by PIU (established at PWD Headquarters) in accordance with the World Bank's "Procurement Regulations for IPF Borrowers for Procurement in Investment Project Financing - Goods, Works, Non-Consulting Services and Consulting Services", dated July 2016, revised in November 2017 and August 2018.

**Disbursement from the World Bank:** The expenditure reporting framework for the Project is Interim Financial Report (IFR). The project expenditures are pre-financed by PWD from GoUP budget and subsequently claimed by PIU from the World Bank by submitting Interim Financial Reports (IFR) to the Controller of Aid, Accounts and Audit (CAAA) in Gol. The IFR is the basis of disbursement from the World Bank to GoUP.

**Internal Audit Assignment:** The PWD intends to hire a firm to conduct the internal audit of the components 1, 2 and 3C implemented by PWD. The firm will be appointed by PWD to conduct the internal audit for 4 financial years i.e. April 01, 2018 to March 31, 2022. The contract may be extended by another 1 year based on future need and performance of the firm.

**Audit Objective:** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- a. To identify and evaluate the adequacy and effectiveness of the procurement, financial management and internal control process and systems;
- b. To ensure compliance to the laid down guidelines and procedures;
- c. To expresses an independent professional opinion with regard to efficiency, effectiveness and

- economy of the project operations;
- d. To identify weaknesses in the procurement, internal control systems and suggest improvement; and,
  - e. To provide project management with timely information and recommendations to take corrective actions, wherever necessary, in due time.

**Coverage and Scope of audit work:**

The audit should cover all project activities (Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs) of component 1,2 and 3C implemented by PIU and 3 Circles / 4 divisions jointly financed by the World Bank (IBRD) and PWD. It should also cover transactions related to Land acquisition, R&R, Utility shifting and other expenses exclusively financed by GoUP. Following offices are required to be audited;

- a. PIU at PWD Headquarters, and,
- b. Phase 1 works implemented at 3 Circles (i.e. Lucknow, Kanpur and Moradabad) / 4 divisions.

The audit should be carried out in accordance with the Standards on Internal Audit (SIAs) prescribed by the Institute of Chartered Accountants of India. It should include such tests and controls that are considered necessary for performance of the audit. Specific areas of audit should include the following:

- a) Assess compliance to the provisions of the Loan and Project Agreement.
- b) Assess compliance to the State financial rules, financial handbook, budget manual, PWD manual, and instructions / circulars issued by GoUP from time to time that apply to this project.
- c) Verify whether the expenditures accounted for this project are eligible for financing and adequate supporting documents are maintained by PIU and circles / divisions for the project transactions.
- d) Verify whether an appropriate system of accounting and financial reporting exists, on the basis of which IFRs are prepared and disbursements are obtained from the World Bank.
- e) Clear linkages exist between the accounting records and the IFRs; and expenses are classified correctly as per the disbursement category of the Loan Agreement. The auditor shall report cases where ineligible expenditures are included in the IFRs and disbursements are sought from the World Bank.
- f) Verify whether funds received by PIU and circles/divisions have been used with due attention to economy and efficiency and have been utilized only for the purposes for which the financing was provided. The auditor shall report cases where delays were noted in the release of funds (CCL) to the circles/divisions and payment to contractors, vendors and consultants.
- g) Assess whether an adequate system is in place to ensure that works, goods and services are procured in accordance with the procurement arrangements prescribed for the project. The audit should report exceptions / cases where these are not followed.
- h) Verify whether adequate records are maintained for the assets acquired under the project. The auditor will verify the completeness, existence, recording, safeguarding and utilization of the assets including, physical verification of sample of assets.
- i) Any other area that audit wish to examine and report.

**Audit Reporting:**

- a. The firm shall carry out internal audit for the period April 01, 2018 to March 31, 2022.
- b. The firm shall be required to prepare an audit schedule, audit plan and **audit checklist** (both for Procurement and Financial Management) for PIU and Circles / Divisions in consultation with PIU and it shall be used for conducting audit and reporting.

- c. The firm shall maintain sufficient working papers & supporting documents as audit evidence to support their conclusions.
- d. The comments from PIU and concerned officials of the Circles / Divisions must be incorporated in the final audit report as Management comments.
- e. The firm shall provide a consolidated audit report to the PIU, as follows: .
  - Executive Summary, highlighting key audit findings for Procurement and Financial Management;
  - Detailed audit report providing audit observations for PIU and the Circles/Divisions;
  - Deficiencies and areas of weakness along with recommendations for improvement;
  - Matters that may have significant impact on the implementation of the project;
  - Compliance to the previous audit observations;
  - Any other matter that the internal auditor consider pertinent to report.

**Audit Resources, Team Composition & Qualification:**

- a. The firm should demonstrate that it has sufficient key and non-key-experts (support staff) to undertake the assignment. The audit personnel should have familiarity with Government accounting and financial procedures and local language (Hindi). It shall also have procurement expert to facilitate the review of procurement and contract management functions.
- b. Key experts are those personnel whose CVs will be evaluated for selection of this assignment. Non-key personnel are those persons whose CVs are required to be submitted for this assignment but will not be evaluated for the purpose of determining the firm's eligibility. It should be noted that all key and non-key staff whose CVs are submitted are expected to make themselves available for the conduct of audit.
- c. The list of personnel required for the assignment is provided below:

<b>Professional</b>	<b>Description of Services to be provided</b>	<b>Experience</b>	<b>No. of persons and indicative staff weeks required for this assignment</b>
Audit Partner ( <b>Key-expert-CV would be evaluated</b> )	Overall coordination & planning, team leadership, reporting & liaison. S/He shall guide the audit team to ensure timely completion of audit, discuss audit findings with Govt officials and issue final audit report.	<ul style="list-style-type: none"> <li>• Qualified Chartered Accountant (partner of the firm) with 12 years of overall experience in audit planning, execution and reporting, of which 5 years as a partner.</li> <li>• Involved as partner in at least five internal audit assignments / audit of Govt depts or Donor funded schemes.</li> <li>• Fluent in Hindi and English.</li> <li>• Thorough Knowledge of MS Office and accounting software's.</li> </ul>	1 No, 2 weeks

<p>Audit Manager <b>(Key-expert CV of CA / Cost Accountant would be evaluated)</b></p>	<p>S/He will be responsible to interact with govt officials to perform the audit at the PIU and circles/divisions and prepare the draft audit report.</p>	<ul style="list-style-type: none"> <li>• Qualified CA or Cost Accountant.</li> <li>• Overall work experience of 6 years, of which atleast 3 years in internal audit.</li> <li>• Involved as an Audit Manager in at least three assignments / audit of Govt depts or Donor funded schemes.</li> <li>• Fluent in Hindi and English</li> <li>• Thorough knowledge of MS Office and accounting software's.</li> </ul>	<p>2 Nos. 4 weeks for each person</p>
<p>Procurement Expert <b>(Key-expert and CV would be evaluated)</b></p>	<p>S/He will be responsible for review of procurement process and contract management functions and will prepare procurement section of the audit report.</p>	<ul style="list-style-type: none"> <li>• Graduate (One) with at least 10 years experience in Government or public sector procurement,</li> <li>• Well versed with CAG/ CVC guidelines and World Bank Procurement Regulations.</li> <li>• Thorough Knowledge of e-procurement systems</li> <li>• Fluent in Hindi and English</li> </ul>	<p>1 No, 4 weeks</p>
<p>Semi-qualified staff and article assistants (Non-key experts CV would not be evaluated)</p>	<p>S/He will be responsible to work with Audit Manager to perform the audit at the PIU and circles/divisions and also support in the preparation of draft audit report.</p>	<ul style="list-style-type: none"> <li>• Semi-Qualified CA or Cost Accountant of the firm with atleast 3 years of audit experience.</li> <li>• Article Assistants of the firm with atleast 1 year of audit experience.</li> <li>• Fluent in Hindi and English</li> <li>• Good Knowledge of MS Office</li> </ul>	<p>2 Nos – Semi Qualified staff 4 weeks for each person 4 Nos – Article Assistants 4 weeks for each person</p>
<p>There will be two audit teams – each consisting of 1 Audit Manager, 1 semi-qualified staff and 2 article assistants. Procurement expert will review the records at PIU (established in PWD Head-quarters) and if necessary may travel to the circles/divisions. Audit partner will provide leadership role and guide the audit teams to perform the audit in a timely manner. Please note that 1 week consist of 5 working days.</p>			

**Deliverables and Payment of Audit Fees**

- a. The firm shall submit two signed copies of the audit report to PIU. Scanned / soft copy of the signed audit report shall also be submitted to the official email ID of the PIU.

b. The PIU will make payment to the firm after accepting the audit report.

<b>Financial Year</b>	<b>Period</b>	<b>Audit Coverage</b>	<b>Report Submission Date</b>	<b>Payment of audit fees</b>
FY18-19, FY19-20, & FY20-21	April 01, 2018 to March 31, 2021	PIU and Circles/ Divisions	March 31, 2022	70% of contract value
FY21-22	April 01, 2021 to March 31, 2022	PIU and Circles/ Divisions	June 30, 2022	30% of contract value

**Employer / Client’s obligation:**

- a. The firm shall be provided copies of Project Appraisal Document, Loan and Project Agreement, Minutes of Negotiation agreed between GoI, GoUP and the World Bank;
- b. The firm shall be provided with copies of all documents such as financial & procurement records, correspondences, minutes of the meeting and any information generated during the course of project implementation that is deemed necessary by the auditor to conduct the audit;
- c. A one day briefing session shall be organized by the PIU for the firm to explain about the project and assignment. It shall be attended by all members of the audit team (key and non-key experts) of the firm.
- d. Audit Review Committee shall be formed by PIU to review the Audit Report submitted by the Firm.

**Auditor / Firm’s obligation:**

- a. The firm should familiarize themselves with the project, GoUP systems and the World Bank’s policies, procedures and guidelines.
- b. The auditor shall be required to mobilize audit teams and pay for necessary transport and accommodation (including for field visits to Circles/Divisions) to conduct the audit as prescribed in the ToR. The PIU may assist the auditor in arranging transport and accommodation, if required by the auditor. The fees quoted for this assignment shall include all (i.e. audit consultancy, travel and accommodation).