

Terms of Reference for Performance Audit

1. Background

1.1 Project Rationale:

Provincial Government in recent past has made use of **Corporatization** as a tools where some of the typical government functions and organization performing such functions are transformed to ones with the commercial orientation of a private company.

The guiding principle of corporatization for the Provincial Government was the intent to capture the advantages of a publically run company—including economy, efficiency, effectiveness, productivity, and financial sustainability—while maintaining accountability toward Government. **It was aimed that a successfully corporatized entity shall be able to demonstrate positive or improved performance results.**

In order to capture the advantages of a private company, the corporatized entities had to emulate the behavior of a private company. They were supposed to ensure this by adopting key corporate characteristics, such as:

- a) Sound corporate governance;
- b) Separate legal entity at least fully owned or partially owned by government;
- c) Internationally acceptable financial management and accounting practices covered under law.
- d) Customer orientation; and
- e) Effective and transparent use of resources including data to assess and monitor performance.

These characteristics are interwoven and mutually supporting.

1.2 Target Entities:

While adhering to the wisdom of corporatization as explained above, **the Government of Khyber Pakhtunkhwa (GOKP)** has formed and incorporated a number of corporatized public sector organizations such as:

- i) Pakhtunkhwa Energy Development Organization (PEDO);
- ii) Khyber Pakhtunkhwa Economic Zone Development and Management Company (KPEZDMC);
- iii) Khyber Pakhtunkhwa Oil and Gas Company Limited (KPOGCL)
- iv) KP BOIT
- v) TEVTA

GoKP has been supplying sizable funds from its development and non-development budgets to these **PUBLIC SECTOR CORPORATE ORGANIZATIONS (PSCOs)** over the years. It is felt necessary by the GOKP to undertake thorough Performance and

Operational audits of these entities to ascertain whether they meet the vision and concept of corporatization and are yielding necessary fruits, as envisaged above.

1.3 Beneficiaries of Performance Audit:

The main beneficiaries of performance audit will be the PSCOs of the GOKP, which will benefit from this extensive exercise to determine value for money. Secondary beneficiaries will be the line departments being members on the BOD of these PSCO. Other beneficiaries will be the Planning and Development Department (P&DD) GOKP, Finance Department and those entrusted with deciding the developmental and non-developmental outlay of the province etc.

2. Objective of Operational Performance Audit:

- a) GOPK needs to conduct detailed Operational audits of the PSCOs **to evaluate performance of the Organizations in the form of economy, efficiency and effectiveness of its operations.** For this, the P&DD would like to appoint one or more **International/local audit firm (Chartered Accountants/Certified Public Accountants)** preferably from big four/satisfactory QCR firms, having experience to conduct performance audit in public sector. An interested firm can bid for Operational Performance audit of one or more of the listed PSCOs. Firms, however, are encouraged to quote for the entire list given in Section 1.2. The government may also refer such audit to the Auditor General of Pakistan if it so desires.
- b) Primary objectives are to assess the availability of operational activities and services provided by the PSCOs and whether these are in line with the vision of corporatization and overall value for money.
- c) Operation audit will also evaluate the performance and capacity of the staff of PSCOs, check existing system for services, check Operational Procedure and provide feedback to the PIC/P&DD.
- d) Hiring process of the performance audit firms would be done by the respective administrative departments with whom the PSCOs are attached and inter alia may be financed from the government funding already available with PSCOs through re-appropriation or otherwise.

3. Scope of Assignment:

The assigned audit firm needs to review overall Operational Performance and control system of the project operations and support activities in light of INTOSAI (International Organization for Supreme Auditing Institutions) Standards/other applicable Standards to come up with an opinion on the status of economy, efficiency and effectiveness of operations primarily focused to examine whether the

PSCOs are meeting the overall objective of corporatization while also achieving its purpose:

- At the right pace
- With the right cost effectiveness
- With the right administrative structures
- With the right inbuilt system of checks and balances:
 - Administratively,
 - Financially,
 - Legally and
 - Operationally
- It is also to be examined that whether the corporatized PSCO been better then its replacement in achieving its objectives in terms of cost benefit. If yes how much? Could it have been more productive in the given resources? If not why? Who is responsible and how does one correct it within the given resources?

4. Specific Areas of Examination and Verification:

Without undermining the generality of the foregoing, the performance and operational audit firms are expected to:

- i) Review and assess respective legal framework under which the relevant PSCO is functioning.
- ii) Identify any improvements in the Legal framework to align the same to the vision of the respective organization.
- iii) Review & Assess whether the Policies, SOPs, Operation manuals, Operational Plan of the PSCO concerned is correctly made to meet requirements for the organization's day-to-day operational activities.
- iv) Determine whether the funds are used for the purposes and intended operational activities.
- v) Conduct physical on-site verification of assets and their intended use, services rendered as described in the payment documents or contracts and verify whether any payments made before actual receipts of goods and beyond contract clause. Evidence of work may include photographs of the goods and works by the consultants, written acknowledgment from beneficiaries, participants, stakeholders and other third parties, supporting documents from venues for workshops, training center etc.

- vi) Examine whether transaction prices or value are unduly inflated; whether liquidated damages have been charged and recovered as per contract, whether payments were made for substandard goods/equipment instead of intended product.
- vii) Conduct verifications which may be extended to third parties check to confirm eligibility of expenditures especially for hired venues for training, workshop and business meeting etc. if any.

5. Compliance

The assigned audit firm needs to review the compliance on test/sample basis of Support Services i.e. on Accounts, Procurement, Asset Management and Monitoring and Evaluation covering the following areas:

- i) Review expenditures of the PSCO in a particular year with reference to business objectives in a timely manner considering KPIs, under which these were claimed and whether right category of financing were used.
- ii) Review arrangements for managing the Designated Accounts and determining that these are maintained and operated as per agreed arrangements.
- iii) Examine whether the PSCO maintains all necessary books of accounts in a timely manner and to ensure compliance of financial management guidelines.
- iv) Examine the compliance of laws, rules, regulations, notifications, SROs, including those related to public procurement.
- v) Verify whether assets procured under the PSCO's funding are justified and are appropriately utilized in an efficient manner.
- vi) Verify the templates/Proforma used for annual/half-yearly asset stock/inventory takeover goods/services, receipt issues, transfers and disposals are up to the mark. Compare the physical assets with Assets register.
- vii) Review good storing system, ageing analysis; identify goods with life span and beyond life span to determine impairment and recommendation for management decision.
- viii) Review document management/filing system including time taken for Official correspondence.

- ix) Review monitoring and evaluation reports in the areas of physical progress and financial progress, and quarterly/annual reports to SECP and Government if any.

6. Conduct period of the Audit

The performance audit shall be carried out covering the period from **1st July 2015 onward** in order to ensure continuous monitoring of the management of GOKP resources of which will, in turn, generate good value for money. **The operational audit should focus less on transactions-checks and more on Operations of PSCOs.**

7. Performance Audit Planning

- Audit is to be planned to cover all the components and sub components of the PSCOs at all the implementations sites including their Head Offices.
- The auditor would plan the work dimensions as per guidelines provided under the components break up. Methodology of the test should be planned and resources engagement to achieve the planned result with in stipulated time frame.
- Deliverable would require to be confirmed in the inception report within **30 days** of engagement along with revised and updated plan, methodology, resources and time frame.
- Operational auditor will conduct audit in accordance with the plan with adequate notice to the auditee for preparation of audit data sheet circulated on relevant information.
- On invitation, The audit firm will attend Project Implementation Committee meeting to report on the progress of planned audit work, request the Chairman of the Committee on any need. The practicalities of these arrangements will be discussed and agreed.

8. Staffing by of the Audit Firm

- i) Given the nature of this assignment in direct and personnel support of PSDC officials, the firm staff should all have highly developed human relations and communications skills and the firm may include sufficient number of appropriate seniors / junior staff for specific tasks as required.
- ii) The Audit Firm shall provide a detailed schedule of proposed staff and corresponding duration of assignment. The staffing proposal should clearly indicate the international or national origin of staff inputs.

- iii) Staffing changes may be proposed by either party and no change may be effected by the firm except with the prior approval of the client. In case of substitutions proposed by the firm, the firm at its own cost will ensure reasonable overlap between departing and new staff as well as smooth continuity of work.

9. Deliverables and Reporting

- a) Operational audit will report to Additional Chief Secretary with copies to the Secretary P&DD and Chairman of the Board of respective PSCO.
- b) The Reporting will be designed in three **parts**;
 - i) Preliminary study of the PSCO operations by the Principal of Chartered Accountants/Certified Public Accountants Firm and submit an **inception report** with an audit methodology, time frame, audit resources and their qualification **within 10 days** of the award of the contract.
 - ii) Submit **draft report** within **75 days** of the award of the contract, covering Audit report with an auditor’s opinion, detailed report on component wise work undertaken, control environment of the beneficiary institutions as studied by the project, fund received, utilized, reasons for delayed utilization (if any) and deficiencies noted and **a table form report (sample format to agree in the inception report)** with significant issues, findings, financial impacts, recommendations, managements response and timeframe of the implementation of the recommendations. Project Implementation Committee (PIC) representatives (s) would attend the draft report discussion meeting.
 - iii) Submit **final report** as reviewed **with 90 days** of the award of the contract in (a) DVD version in MS Office 2010 (word/excel) and (b) Printed version; all in ten sets,
 - iv) As part of the final deliverable/audit report, the Provincial Government expect to receive a detailed performance giving a bird-eye view of the PSCO especially covering:

Nature	Tasks	Time-frame	Cost	Outputs	Cost/Benefit ratio	Issues	Responsibility	Solutions
Administration								
Operational								
Financial								
Legal								

Each of the area and task may have sub-areas and sub-tasks, if so applicable.

Each Report shall contain:

- Executive Summary
- Summary of audit findings with recommended actions.
- Detailed assessment of each audit areas which include review of the PSCO progress, assessment of internal control system that captures the audit issues and recommendations.
- Categorization of audit findings by risk severity: **High, Medium and low.**
- Classification of possible causes of audit findings.

10. Data & Services to be provided by the Client:

- a) The audit firm shall be given access to all legal documents, correspondences and any other information associated with the PSCOs and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding with Donors; Governments; etc.
- b) The audit firm shall also be given access to all relevant papers and documents, correspondences and any other information deemed necessary during the audit.
- c) The auditor shall also be given such other logistic facilities which will be mutually agreed.