

## **REQUEST FOR EXPRESSION OF INTEREST (REOI)**

### **Consultancy Services for Internal Audit**

<b>Project name</b>	Andhra Pradesh Urban Water Supply & Septage Management Improvement Project
<b>Country</b>	India
<b>Project ID</b>	AIIB - AP - MAUD - S1-2020
<b>Funding source</b>	ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB) & GoAP
<b>Type of contract</b>	Services
<b>Type of notice</b>	Request for Expression of Interest (REOI)
<b>Issue date</b>	14.07.2020
<b>Closing date</b>	04.08.2020

1. The Andhra Pradesh Urban Water Supply and Septage Management Improvement Project (APUWSSMIP) is a US \$ 570 Million project being implemented by Government of Andhra Pradesh (GoAP) with support from Asian Infrastructure Investment Bank (AIIB) Loan of US\$ 400 Million against 70% share and remaining 30% share is born by Govt. of AP.
2. The Project objective is to provide safe drinking water through piped water supply to 3.3 Million people in Andhra Pradesh.
3. The Consulting services of internal audit is to provide the Project Management with report on the efficacy and efficiency of the financial system and internal controls, the degree of risk and efficiency of risk management control governance and compliance with prevailing laws.
4. The CA Firm services are expected for 1 year and may be extended for one more year based on satisfactory performance.
5. The PD-APUWSSMIP invites eligible CA firms ("Consultants") to indicate their interest in providing the Services for Internal Audit. Interested CA Firms shall provide information demonstrating that they have the required qualifications and relevant experience to perform the consultancy services.
6. The selection criteria is :
  - A. The CA Firm should be 10 years old and should have at least 5 years experience in audit of Govt. Projects / External Aided Projects (EAP).
  - B. Annual turnover should be Indian Rs.50.00 Lakhs and above in any one financial year during the last three (3) financial years from 2017-18 to 2019-20.
7. Expression of Interest shall be not more than 25 pages and must include:
  - Introductory letter on letter head (with complete contact details - name of the contact person, mailing address, telephone, fax, e-mail etc.)
  - Organization profile.
  - Two years annual report (FY 2018-19 2019-20) and 3 years financial statements.

- Short note on the similar projects implemented by the firm pertaining to the Selection criteria along with the contact details of past clients.
  - The EoI should contain sufficient supporting documents to substantiate the claim of the consultant towards their qualifications and experience as per the Selection criteria.
8. The CA firm will be selected on the basis of Quality and Cost Based Selection(QCBS) method. Interested service provider will be required to submit Simplified Technical Proposal and a Financial Proposal as per Instructions contained in Request for Proposal, the draft Terms of Reference (ToR) is indicative of the scope of work, the final and binding version will be included in the RfP.
  9. Expressions of Interest (EoI) shall be submitted to the O/o Project Director - APUWSSMIP in hard copy on or before 05:00 PM 04.08.2020
  10. The draft Terms of Reference (ToR) is available for downloading at website <https://cdma.ap.gov.in/>

**Address:**

**Project Director**

APUWSSMIP (Andhra Pradesh Urban Water Supply and Sewerage Management  
Improvement Project)

5th Floor, Dhoom Complex, Opp:Venue Convention Centre  
NH-5, Srinivas Nagar Bank Colony

Email : [apuwsstmip@gmail.com](mailto:apuwsstmip@gmail.com) Vijayawada - 520008

**Sd/-  
Project Director**

**Draft Terms of Reference for Appointment of Internal Auditor**

## **List of acronyms**

AIIB	Asia Infrastructure Investment Bank
AP	Andhra Pradesh
APUIFDC	Andhra Pradesh Urban Finance and Infrastructure Development Corporation
APUWSSIP	Andhra Pradesh Urban Water Supply & Septage Management Improvement project
CHPEEO	Central Public Health Environmental Engineering Organisation
GoI	Government of India
GoAP	Government of Andhra Pradesh
GRM	Grievance Redress Mechanism
MoUD	Ministry of Urban Development, Government of India
PHMED	Public Health and Municipal Engineering Department
PMU	Project Management Unit
ULB	Urban Local Body

## **BACK GROUND :**

This document presents the Terms of Reference for the Internal Audit of the APUWSSMI Project with AIIB Assistance.

The Andhra Pradesh Urban Water Supply and Septage Management Improvement Project (APUWSSMIP) is a US \$ 570 Million project being implemented by Government of Andhra Pradesh (GoAP) with support from Asian Infrastructure Investment Bank (AIIB) Loan of US \$ 400 Million against 70% share, and remaining 30% share is born by Govt. of AP.

The Municipal Administration & Urban Development Department (MA & UD) is implementing APUWSSMIP in 50 eligible Urban Local Bodies (ULBs) of Andhra Pradesh.

### **Objective of the Scheme:**

To provide potable water supply to 3.3 Million Urban population in 50 ULBs to provide and to provide Grey Water Management in 5 ULBs as Pilot project and to provide state level institution development and municipal capacity enhancement.

Andhra Pradesh Urban Finance & Infrastructure Development Corporation Limited (APUFIDC Ltd.) is the nodal agency under MA &UD will manage the implementation and monitoring of the project. A Project Management Unit (PMU) under APUFIDC is headed by the Project Director (MD-APUFIDC ) as supported by Asst. Project Director, procurement, disbursement and financial and capacity enhancement specialists, Environmental Specialist, and Social Expert to oversee the implementation of the project. The PHMED (Public Health & Municipal Engineering Dept.) is the Project Implementing agency and will implement the project in coordination with the ULBs.

The following are the 3 Components in Project namely:-

### **Component 1 : Investment in Water Supply Infrastructure : -**

This will include construction of intakes at raw water source, raw water transmission mains, water treatment plants, clear water transmission mains, treated water storages, distribution networks and household service connections.

### **Component 2 : Investment in 5 sanitation and drainage projects : -**

It has been agreed to finance waste water treatment plants in five Pilot ULBs, to address sanitation and safely manage gray waste water and local over flow from septic tanks

### **Component 3: Technical Assistance, Institutional Development and Municipal capacity Enhancement and Implementation Support : -**

The purpose of this component is to support the effective implementation of the Project and ensure long – term sustainability through the strengthening of technical and financial capacity of the ULBs in water service delivery.

### **Appointment of Internal Audit Firm/Consultancy :**

The Project Director PMU- APUWSSMIP intends to appoint an independent firm of Chartered Accountants to conduct the half yearly Internal audit.

### **Objectives of the Internal Audit Consultancy:**

*Internal Audit to provide the Project Management with report on the efficacy and efficiency of the financial system and internal controls, the degree of risk and efficiency of risk management control, governance and compliance with prevailing laws.*

Internal Audit is an independent management function, which involves a continues and critical appraisal of the functioning of a project with a view to suggest improvements thereto and add value to and strengthen the overall mechanism of the project, and internal control system, internal audit therefore provides assurance that there is transparency in reporting as a part of governance.

The key objectives of internal audit are to

- (a) To Obtain an independent professional opinion on the continuing implementation and effectiveness of the internal control proceedings and the financial management & systems prescribed under the Project and adequacy thereof
- (b) Internal audit of Project accounts, based on this the auditor will give suggestions for improvement which will form basis for Management action.
- (c) To ascertain the efficiency effectiveness and economy of the program operation
- (d) To ascertain and evaluate the adequacy and effectiveness of the financial management and internal control framework;
- (e) To ascertain compliance of the laid down policies, prevailing laws and procedures applicable etc., under the project.
- (f) To review maintenance books of accounts and Half yearly/Annual Financial Statements;
- (g) To identify areas for improvement and critical weaknesses, if any
- (h) To provide Project Management with timely information and recommendations on financial management aspects of the project to enable timely corrective actions, as necessary.

Therefore internal audit will review the operation of the overall financial management arrangements including the adequacy and adherence to the internal controls and compliance with financing agreements of the Bank and in accordance with Project Document. Provide programme management with timely information on financial management aspects of the programme to enable appropriate follow up action and provide assurance on the use of proceeds for these components with reference to the relevant documents of the project and will verify the procurement procedures adopted in the project.

#### **Scope of the Audit and Outputs:**

The Internal audit will be conducted in accordance with the Indian Auditing & Assurance Standards prescribed by the Institute of Chartered Accountants of India.(ICAI)

In each audit cycle (Half yearly audit) the firm must visit the divisional offices of Engineer –in-Chief (Public Health) and verify that the utilized moneys are for the purposes for which the funding is given and conduct a physical verification of assets created through the project funds.

The Coverage of Audit is at PMU-APUWSSMIP at APUFIDC Level and 14 Divisional Offices headed by Executive Engineers of the Engineer – in – Chief (Public Health & Municipal Engineering) Department.

**Specific areas of coverage of the audit will include the following :**

- a) An assessment of the adequacy of and adherence to the Program financial Management systems, including internal controls. This would include aspects such as adequacy and timeliness of accounting, financial and operational controls and the need for any revision; reliability of accounting systems data and financial reports; methods of remedying weak controls or creating them where there are none.
- b) The books of account required to be maintained as per Generally Accepted Accounting Practices or other relevant applicable National Accounting Standards have been maintained and are up to date.
- c) That all transactions as recorded in the books of accounts are supported by adequate documentation and supportings.
- d) That all necessary supporting documents such as records, vouchers, bills, bidding documents etc., and books of accounts have been kept adequately in respect of all project procurements and expenditures covered by IUFRs(Interim Unaudited Financial Reports)
- e) Clear linkages exist between different accounting records including account books and the IUFR and the activities are appropriately classified into relevant components in the monthly abstracts.
- f) As assessment of compliance with provisions of financing agreements especially those relating to accounting and financial matters
- g) That expenditures charged to the Program are eligible expenditures and have been classified correctly.
- h) That the funds flow process is working effectively and as per the prescribed time lines if mentioned specifically.
- i) That the system for monitoring security deposit deducted from contractors is adequate and all statutory deductions have been made from the running bills, and deposited into the concerned departments.
- j) That the funds are utilized for the program in which it was intended for and are not being utilized for activities outside the Project.
- k) Expenditure incurred are in accordance with the financial norms prescribed in the AIIB guidelines, namely the Loan agreement, Disbursement letter and any other instructions issued by AIIB from time to time and also the Project Agreement, Subsidiary Agreement between the State Government and the APUFIDC if any;
- l) Whether goods equipment works and services have been procured in accordance with the relevant loan and project agreement following AIIB guidelines for procurement of goods, works & services;
- m) Whether the project follows consistent accounting policies and procedures
- n) The internal auditor shall report each half year the actual expenditure incurred by the PMU and PH divisional offices , consolidating in circle wise.

- o) The internal auditor will interact with the bank team as and when requested by bank and during the visits by the bank team.

***The Internal Audit at the PMU level shall also bring out the following:***

- a) Efficacy and effectiveness of accounting, financial and operational controls
- b) Security /effectiveness of computerized accounting system;
- c) Efficiency and timely consolidation of expenditure/expenditure reports;
- d) Management of assets and liabilities
- e) Timely and correctly preparation and submission of Interim Unaudited Financial Reports and Annual Financial Statements;
- f) Timely and correct preparation and submission of Withdrawal Applications;
- g) Legal compliance; and
- h) The degree of risk and efficiency of risk management control.

**Audit Reporting and Opinion:**

The internal auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusions on the efficiency and effectiveness of the systems processes and controls including items of financial statements. The internal auditors report should contain a clear written expression of significant observations, suggestions/recommendations if necessary based on the policies, processes risks controls and transaction processing taken as a whole and managements responses. The internal report will be prepared in accordance with the applicable auditing standards.

The Internal Auditor will also submit an half yearly consolidated internal audit report with the following suggested sections:

- Introduction – Scope, nature and coverage of the audit including period covered, units audited.
- Executive Summary – highlighting the critical issues preferably classified as per thematic area with the response of the auditee
- Specific report on any fraud, illegal act or mis-appropriation and significant non compliance
- Report on examination of IUFRs shall cover whether expenditure eligible under the project.
- Report on the records verified, deviations if any the adequacy of internal controls and observation on the accounting records systems and controls that were examined during the course of the audit; identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- Matters that may have a significant impact on the implementation of the project and bring to the Project Director’s attention any other matter that the auditors consider pertinent
- Recommendation for improvement.

The report should be discussed and agreed with the Project Director –PMU-APUWSSMIP and should be structured in a manner giving the observations the implications of the observations and the suggested recommendations.

**Half Yearly Reporting:** The consolidated Half yearly audit report will additionally be accompanied by the following statement.

Compiled consolidated interim Financial Reports with the following certification:-  
“Certified that the actual expenditure in the accompanying consolidated interim Financial Reports of the Project have been drawn from the books of account of the project and are in conformity therewith”.



### **Annual Opinion on Internal Controls:**

The internal Audit Report issued for the 2<sup>nd</sup> half year will be accompanied by a specific opinion of the auditor on the adequacy or otherwise of the internal control system governing the project.

**Timelines and submission of Reports:** The audit shall commence after furnishing of IUFR to the bank by PMU and shall be finished within 45 days from the date of commencing. The internal auditor should furnish a half yearly report to the Project Director along with an executive summary of the critical issues/findings that require immediate attention of the senior management. Non submission of Audit Reports within the stipulated period may attract a penalty of 0.5% of the contract value per week basis unless otherwise the justification for the delay is considered and accepted by the competent authority.

- (i) **Period of appointment :** The auditors will be appointed initially for a period of one year and it is extended on satisfactory performance for another one year on same terms and conditions.
- (ii) **Relationship with Management:** Co-operative relationships with PMU to enhance the ability to achieve its objectives effectively. Audit work should be planned in conjunction with management as far as possible, particularly in respect of the timing of audit work.
- (iii) **Support from PMU- APUWSSMIP :**  
The auditor would be given access to all legal documents correspondence and any other information associated with the project and deemed necessary by the auditor. It is desirable that the auditor become familiar with a copy of the Bank's Guidelines on Financial Reporting and Auditing of Projects Financed by the AIIB which summarizes the Bank's financial reporting and auditing requirements.
- (iv) A review committee consisting of the relevant officials should review the internal audit report and take decision on remedial measures on the issues pointed out in the internal audit.

### **Eligibility Criteria :**

The CA firm should be 10 years old and should have at least 5 years experience in audit of Govt. projects

- Self attested copy of Firm registration and PAN card and GST Registration Certificate
- Must be listed in the list of CAG empaneled CA firms (self attested copy of empanelment Certificate)
- Should not have been blacklisted by Central /State Govt./Govt. agencies and provide a self – declaration by the firm's authorized representative.

The firm shall be able to engage the following personnel for Half yearly internal audit

Sl.No.	Key Professionals	Description of Services to be provided	Experience	No. of Persons
1	Team Leader	Overall Coordination & Planning team leader ship, reporting liaison with client	Qualified Chartered Accountant, at least 5 years experience with expertise in the area of internal audit planning execution and reporting, empanelled	1 (One)

2	Audit Managers	Overall coordination & Planning team leadership Reporting liaison with client	Qualified Chartered Accountant with at least 2 years of experience in the area of internal audit planning, execution and reporting	2 (Two)
3	Senior Audit Asst.	For Vouching and verification of Books of accounts	CA(Inter) with 1 year experience in Accounting & audit	2 (Two )
4	Junior Audit Asst.	For Vouching and verification of Books of accounts	B.Com/M.Com with 1 year of experience in Accounting & audit.	3 (Two)