

SOCIAL HEALTH PROTECTION INITIATIVE(SHPI)
DEPARTMENT OF HEALTH KHYBER PAKHTUNKHWA

TERMS OF REFERENCE

AUDIT OF "DISPOSITION FUNDS"

1. Background

At the request of the Government of Pakistan, the German government, through KfW, has assigned approximately €10 million to support the development of social health protection schemes in Pakistan, specifically in Khyber Pakhtunkhwa and Gilgit-Baltistan. For this purpose, Financing Agreement was signed between the Government of the Islamic Republic of Pakistan represented by the Ministry of Economic Affairs Division and KfW - German Development Bank on **January 05, 2010**. A Separate Agreement to the Financing agreement was signed on 02. 10. 2013 with the Department of Health (DoH) Khyber Pakhtunkhwa as Project Executing Agencies (PEAs). Through a transparent and competitive bidding process State Life Insurance Corporation of Pakistan was selected as the implementing partner for the four pilot districts in Khyber Pakhtunkhwa viz Kohat, Mardan, Malakand and Chitral. The total funds allocated by KfW for the four districts in KP through the above mentioned agreements are 9 million Euros.

For this purpose, bank accounts (Special Account) have been opened by the Implementing partner, the State Life Insurance Corporation of Pakistan. The separate agreement also provided for selection of an International audit firm with representation in Pakistan to carry out annual financial audits of the Insurance Company regarding use of funds and the performance of the company.

2. Objectives

The objective of the audit of the Funds disbursed directly to the Implementing partner is to permit the auditor to express its professional opinion on the supporting documents as defined in the Annex "Disbursement Procedure" to the Separate Agreement and the corresponding accounting procedures.

The audit will be effected annually ("Audit Period") and the respective report (s) should be presented not later than 3 months after the end of the period covered.

The summary of financial support provided by the KfW - German Development Bank to the State Life Insurance of Pakistan during the first year is as follows:

Name of the country	Pakistan
Name of the provinces	Khyber Pakhtunkhwa
Project Executing Agencies	Departments of Health, Khyber Pakhtunkhwa represented by Project Management Unit (PMU) Social Health Protection Initiative, 9A, Rahman Baba Road University Town Peshawar
Implementing Partner	Sate Life Insurance Corporation of Pakistan
Timeframe of the Scheme	January 19, 2015 – January 18, 2020
Audit Firm will be selected for the year.	Jan 01, 2018 – December 31, 2018
Total transaction of funds for the Audit period	PKR. 219,456,782 (Approximately)
Agreement with the selected Firm will be extended for next two years	Jan 01, 2019 – December 31, 2019 & Jan 01, 2020 – December 31, 2020
Total transaction of funds for the Audit period	Transaction amount will be dictated when agreement extended

3. Scope

Audit will be conducted in accordance with International Standards on Auditing as published by the International auditing assurance standards board of the International Federation of Accountants, with special reference to ISA 800 (Auditor's report on special purpose of audit engagements) and will include such tests and controls as the auditor considers necessary as well as site visits if also deemed necessary. The auditor must bear in mind that, for the establishment of the audit opinion, he has to carry out a compliance audit & not a normal statutory audit.

The preparation of the financial reports and the statements of the expenditure on the receipts and disbursement basis of accounting is the responsibility of the Project Executing Agency (PEA). The financial information has to be established in accordance with consistently applied accounting standards and underlying load/financing agreements including the corresponding Separate Agreement

The auditor's opinion established in the audit opinion report, will explicitly state whether:

- 3.1. The payments out of the Fund(s) have been made in accordance with the conditions of relevant (Loan/Financing) agreements and the corresponding Separate Agreement; especially the auditor shall express whether payments to the service providers have been effected by the Insurance Company. Where ineligible expenditures are identified, those should be noted separately.
- 3.2. The Accounting documents have been maintained in accordance with the provisions of the Financing Agreement and Separate Agreement.

- 3.3. Expenditures are supported by relevant and reliable evidence. All supporting documents & records with respect to the statements of expenditure submitted as the basis of withdrawal application have been made available.
- 3.4. The audited statements of expenditures can be relied upon to support the related withdrawal applications. Clear linkage should exist between statement of expenditure, the withdrawal applications presented to KfW and accounting records
- 3.5. Goods and services financed have been procured in accordance with the relevant Financing Agreement & Separate Agreement.
- 3.6. Specific deficiencies and areas of weakness have been identified in internal systems and controls of the Implementing Organisation. Where deficiencies are identified, these should be noted separately.

4. Reports

The audit report(s) will

- 4.1. be issued by the auditor in English language
- 4.2. include all aspects specified in preceding paragraph (“scope”)
- 4.3. contain these Terms of Reference as an integral part
- 4.4. provide a schedule showing receipts and disbursements during audit period
- 4.5. include the balance of special accounts at the beginning and the end of the audit period
- 4.6. comprise the auditor’s statement of appraisal and quantify the consequences of the specific deficiencies, if any.

If considered pertinent, the auditor will also prepare a “management letter” in which the auditor will:

- 4.7. give comments and observations on the accounting records, systems and controls examined during the course of the audit (as far as necessary for the understanding of the financial reports and the statements of expenditure),
- 4.8. identify specific deficiencies and areas of weakness in systems and controls of Implementing Organisation that have come to the auditor's attention, especially with regard to withdrawal, purchase, storage and payment transactions, and make recommendations for their improvement,

- 4.9. report on actions taken by the management of the Implementing Organisation to make improvements with respect to deficiencies and areas of weakness reported in the past,
- 4.10. bring to attention of the Project Executing Agency any other matters that the auditor considers pertinent.

5. Auditor's Experience and Qualifications

The audit firm should have a license from a (ICAP) Institute of Chartered Accountants of Pakistan. The firm must have relevant experience in accounting and auditing of development projects, especially donor-funded operations. The firm will be given priority that has experience in financial audit of KfW funded projects.

The key audit team shall comprise, at least:

- 5.1. An audit manager with at least 10 years' experience in auditing and with a sound knowledge of donor-financed projects. In addition, he/she should have accountancy professional qualification;
- 5.2. Assistant auditors with adequate experience and professional qualifications.

6. Location

The services will largely be provided at State Life Insurance Corporation of Pakistan Principal office State Life Building No.9, Dr Ziauddin Ahmed Road, Karachi, Zonal Office (State Life Building 2nd Floor, 34-The Mall, Peshawar Cantt.) and the empanelled hospitals in the four districts of Chitral, Malakand, Mardan and Kohat.