

15/6/16

**Government of Rajasthan
Finance Department
[Economic Affairs Division]**

Strengthening Public Financial Management System in Rajasthan Project

CORRIGENDUM

Reference to the EOI submission notice dated 13/05/2016, consultancy service no. 4 'Strengthening Local Fund Audit in the Government of Rajasthan' is now revised and titled as '**Enhancing effectiveness of Public Audit Institutions in the Government of Rajasthan**'. The revised draft of Terms of Reference (TOR) with revised scope of assignment may be obtained from website (<http://www.finance.rajasthan.gov.in/>). Further, the last date for submission of Expression of Interests (EOIs) for hiring this particular consultancy service is hereby extended up to Monday, 27th June, 2016. For all other consultancy services the date of EOIs submission will remain Friday, 17th June, 2016.



Project Director

Rajasthan: Strengthening Public Financial Management Project
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Government of Rajasthan
Finance Department
[Economic Affairs Division]

REQUEST FOR EXPRESSIONS OF INTEREST
(CONSULTING SERVICES – FIRMS SELECTION)

Country: Rajasthan, India
Name of Project: Strengthening Public Financial Management in Rajasthan Project (P156869)
Assignment Title: Consultancy for Enhancing Effectiveness of Public Audit Institutions in Government of Rajasthan, India.

The Government of Rajasthan has applied for financing from the World Bank toward the cost of Strengthening Public Financial Management in Rajasthan Project (P156869) and intends to apply part of the proceeds for a consultancy to enhance the effectiveness of Public Audit Institutions (Internal Audit, Inspection and Local Fund Audit) in Government of Rajasthan.

The consulting services (“the Services”) will facilitate strengthening Public Audit Institutions of Inspection, Internal Audit and Local Fund Audit in Rajasthan with a view to enhance its effectiveness to play a wider role in accountability, and adding value by raising the profile and performance of these vital auditing functions in the state. This is intended to be achieved through institutional strengthening, empowering staff with latest skills, improving efficiency in audit procedures and processes including use/development of IT tools. The assignment would involve an AS IS analysis, developing a strengthening plan (TO BE), developing/upgrading audit procedures and manuals, demonstrating proof of concept of risk based and management audit through pilots, capacity building of audit staff, IT systems development/ implementation, developing an external communications strategy and providing handholding support. The draft Terms of Reference (TOR) for this assignment can be found at (<http://finance.rajabasthan.gov.in/>).

The Finance Department, Government of Rajasthan now invites eligible consulting firms (“Consultants”) to indicate their interest in providing the Services. Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services. *The short listing criteria are available in Annexure-1.*

The attention of interested Consultants is drawn to paragraph 1.9 of the World Bank’s Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grant] by World Bank Borrowers, January 2011 – revised 2014 (“Consultant Guidelines”), setting forth the World Bank’s policy on conflict of interest. Consultants may associate with other firms in the form of a joint venture or a sub-consultancy to enhance their qualifications. The nature of association whether JV or Sub-Consultant, should be mentioned in the EOI.

A Consultant will be selected in accordance with the QCBS method set out in the Consultant Guidelines. Further information can be obtained at the address below during office hours [*i.e. 1000 to 1700 hours*]. Expressions of interest must be submitted by *June 27, 2016*.

The Project Director,
Rajasthan: Strengthening Public Financial Management Project
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Annexure-1: Short listing Criteria

S. No.	Basic Requirement	Specific Requirements	Documents Required
1)	Entity	The Consultant should be in existence for at least 10 years	Copy of the Incorporation document
2)	Turnover	Positive net worth and average Annual Turnover of the Consultant from consulting services during the last three financial years (2013-14, 2014-15 and 2015-16) should be at least Rs.5 cr.	Certified copy of the audited financial statements OR certificate from a Chartered Accountant
3)	Overall experience	The Consultant should demonstrate experience of working in government sector in the area of public financial management particularly audit	Self certification of details of the experience
4)	Technical Capability	The Consultant should have successfully executed at least two similar assignments relating to evaluation and implementation of audit systems in government, each of value of at least Rs 20 lakhs.	Work orders and work completion certificates from client

Draft Terms of Reference

Enhancing Effectiveness of Public Audit Institutions in the Government of Rajasthan

Background

1. The Government of Rajasthan (GoR) is committed to Governance and Public Financial Management (PFM) reforms as reflected in creating greater transparency, building staff capacity in key areas, strengthening accountability and introducing electronic systems to support better service delivery that cuts across various domains. All these steps are in the right direction to strengthen PFM in the state which would lead to improving service delivery, transparency and good governance.
2. There has been a paradigm shift in the PFM environment with the implementation of an online computerized treasury system - the Integrated Financial Management System (IFMS) – which is a web based system for capturing government's financial transactions including budget planning, preparation, allocation and distribution, fund management, treasury operations and accounting. Another key development has been the passing of the Rajasthan Transparency in Public Procurement Act that provided the framework for further strengthening procurement regulations. GoR launched the State Public Procurement Portal (sppp.raj.nic.in) under IFMS inter alia to provide free and open access to general public of all procurement related information required by the Act, thus ensuring transparency in procurement.
3. To further strengthen its PFM and governance environment, GoR is taking up the Rajasthan Public Financial Management Strengthening Project with financing from the World Bank. **The overall objective of the project is to contribute to enhancing efficiency, effectiveness and transparency in public financial management in Rajasthan through strengthening PFM framework, systems and institutions of GoR to enhance governance and accountability.**
4. As part of this project, GoR intends to strengthen the audit institutions of Local Fund Audit and Internal Audit in the state.

Focus Area I – Strengthening Local Fund Audit Institution in Rajasthan

Brief overview of Local Fund Audit Institution in Rajasthan

5. The Local Fund Audit Department (LFAD) of the state, headed by a Director, carries out independent audit of local bodies and is governed by the Rajasthan Local Fund Audit Act, 1954. By an amendment in 1987, the scope of audit by LFAD was defined to include special audits, pre-audits (audit prior to payment), concurrent audit (on the spot audit) and post-audit (audit after payment is made). Another important amendment was made in 2011 as per the recommendations of the 13th Finance Commission casting the responsibility on the Director to present a consolidated report of the audit findings for urban and Rural Local Bodies to be placed before the State Legislature. The Act is supported

by rules issued in 1956 which elaborates operational matters pertaining to local fund audit such as audit reports and relationship with the auditee.

6. LFAD works through its headquarters in Jaipur and 8 Regional Offices. LFAD carries out audit of local bodies including Gram Panchayats, Urban Local Bodies, Zilla Parishad, Panchayat Samiti, Nagar Nigam, Nagar Parishad, Nagar Palika, State Boards and Corporations and specified institutions entrusted by the GoR from time to time. The total number of institutions that LFAD is mandated to audit numbers about 10771 as of Jun 1, 2015 (up from 9998 as of Jun 1, 2014)¹ and 24,691 audits are pending completion from earlier years as on that date which needs to be addressed by the Department. The number of audit staff available, however, is not proportionate to the number of auditable units - 50% of the sanctioned posts are vacant and out of 178 audit teams sanctioned, only 60 are working and some of these are working with less than the norm of 3 members each. Additionally, the LFAD staff is called for other work such as for election duties and special audits for long period of time.

7. Shortage in human resources coupled with use of traditional audit procedures are reflected in the form of arrears of audit and follow up of audit observations. LFAD has been able to cover only about a third of the current audits each year and a similar coverage for past audits in arrears. Large number of audit paras is pending for compliance, including from previous years, and there is an increasing trend in accumulation of pending audit paras. LFAD has established norms to classify the audit observations based on the nature of observations and amount involved - into ordinary and serious observations. An elaborate system of audit committees has been mandated for follow-up and clearance of audit observations. Despite this framework, compliance to audit observations remains a concern and has also been commented upon by the C&AG.

8. LFAD follows the practice of conducting 100% audit of the transactions routed through the cash book. In case of other accounts, the practice is to do a detailed audit for two months including the last month of the financial year. Risk profiling is not done and as a result there is inadequate attention to significant and systemic issues. Emphasis is on unit based audit with no focus on the “big picture”. There is no procedure to conduct high-level audits such as performance audit and system audits. During each visit, audit of accounts pertaining to multiple years is conducted. There is no updated Audit Manual.

9. LFAD is also required to certify the correctness of accounts of the Panchayats and Municipalities. The C&AG, in its Report on Local Bodies, has observed that LFAD is not discharging this function which, as explained, was due to non-maintenance of accounts by the PRIs. In March 2015, LFAD has commenced certification of accounts and have started issuing unqualified/qualified reports for which detailed guidelines were issued. A system of Technical Guidance and Supervision (TGS) has been introduced by the Comptroller and Auditor General of India (C&AG) based on the recommendations of the 13th Finance Commission. The TGS system continues as recommended by the 14th Finance Commission.

10. The current audit function operates within the framework of a compliance audit and limited human resources are made available for this purpose. Coverage of audit plans is uneven and not

¹ Rural local bodies 10222, urban local bodies 187, other autonomous institutions 329

sufficiently linked to risk and the role of audit does not extend to identification of systemic improvements. Notwithstanding the gravity of irregularities pointed out in audit, response to audit reports and follow up action is inadequate and tardy. Presently, local fund audit is essentially input-oriented. Staff capacity is also limited with no regular program for capacity building on the anvil.

11. Inadequate stature and organizational structure, archaic audit practices, absence of auditing standards and updated manuals, and insufficient human resource capacity in terms of number and skill sets have resulted in backlog of audit and accumulation of unresolved audit observations, thus undermining the effectiveness and efficiency and also relevance of the function. Impact of audit is, currently marginal and therefore the function needs to be re-structured to improve efficiency and effectiveness and also productivity of the auditors.

12. LFAD covers institutions that handle substantial public funds and these are expected to increase significantly in the coming years - this is about 25% of the total expenditure of the state and is available to these institutions as Grants-in-Aid and hence poses a higher fiduciary risk. The 14th Finance Commission has proposed higher availability of funds to the urban and rural local bodies. The need for a strong audit institution in the state cannot be stressed more since there is increased devolution of funds to the local bodies/autonomous bodies and GoR should commit to elevate the role and profile of the LFAD. The C&AG also conducts audit of the urban and rural local bodies, but coverage is less than 10%. Therefore, enhancing coverage of audit by LFAD is very important; else, many local bodies may remain outside audit for several years.

13. With the changing PFM environment in the state and the growing expectation from audit institutions, LFAD faces several challenges that restrict its efficiency and effectiveness. The system is in need of modernization, with adequate emphasis on systems, rather than only on transactions, based on a calibrated risk assessment and profiling. With this intent, GoR now seeks to engage experienced consulting firm to develop a road map for strengthening the audit institution of Local Fund Audit.

Objective of the Assignment

14. The objective of the assignment is to **strengthen the public audit institution of Local Fund Audit in Rajasthan with a view to enhance its effectiveness to play a wider role in accountability and bringing in value to the function by raising the profile and performance of this vital auditing function in the state and also improve the productivity of the audit staff.**

15. This is intended to be achieved through institutional strengthening, empowerment of staff with latest skills, improved audit procedures, and more efficient audit processes including use of IT tools. Part A of the assignment would involve an AS IS analysis, developing a strengthening plan, developing/upgrading audit/procedures manuals, demonstrating risk based audit and management audit concepts through pilots, and capacity building of audit staff and Part B will be handholding support for audits. An external communication strategy is also envisaged.

16. Detailed Scope of Work

Part A

17. (A1) Diagnostic or situational analysis (AS IS study) and developing a Local Fund Audit Strengthening Plan for Rajasthan

- AS IS Study: Study and document the existing local fund audit function in GoR (AS IS study) which will include the local fund audit and rules, audit organizational structures and responsibilities, staffing and skills, mandate/scope of audit, practices and processes, reporting arrangements, responsiveness to audit reports and quality assurance.
- Gap Analysis: Based on the study, identify the gaps that are constraining establishing an effective audit function.
- LFA Strengthening Plan: Develop a State Local Fund Audit Strengthening Plan in consultation with key stakeholders like Finance Department, LFAD, State AG etc., providing strategic direction for modernizing the local fund audit function in the state and a new vision for the audit function (TO BE). This will include recommendations on the following:
 - possible institutional structure of the audit function including having an Audit Planning Cell, Quality Assurance Cell, and Training Cell for focused attention
 - specialization and retention of audit staff and options for engaging external support including external technical consultants and co-sourcing
 - suitable changes to the act/rules/procedures to facilitate operationalising the new scope/framework, reporting lines, expanding mandate/scope of audit to include higher level audits such as risk-based audits, systemic and thematic audits and performance audits, restructuring audit practices facilitating moving towards efficient collection of audit evidence and higher level audits, and related HR responsibilities and audit skills that are needed to achieve this
 - methodology to address the backlog in audits and minimize build-up in future
 - an effective mechanism to enforce production of records and documents for audit and resolution of audit findings by the auditees
 - strengthening the consolidated annual audit report to the State Legislature

The report would also provide good practices, both nationally and internationally, that could be considered for adoption in the state.

- Stakeholders' Consultations: Suggest a Communication Strategy for external stakeholders including the State Legislature and the state Accountant General (Audit). Hold workshops/consultations with stakeholders, including the state Accountant General (Audit), and discussions with top management to agree on the set of possible recommendations (action plan) and provide appropriate sequencing (short, medium and long term), the resources needed and whether there is need for legislative sanction.

18. (A2) Developing/modernizing audit manual

- Based on the State Local Fund Audit Strengthening Plan and the new approach to audit, the consultant will upgrade the audit manual for local fund² audit incorporating modern audit methodologies, approaches and techniques. In developing the audit manual, good practices in local fund in other jurisdiction should be studied and appropriately incorporated and the audit practices and procedures should comply with generally accepted auditing standards. Practice guides, standard formats and checklists (entity-wise or area-wise) should be developed to ensure uniformity and focus in audit approach. The manual should cover risk based audit methodology in detail as well as an outline of an appropriate MIS, including the formats, to capture the progress of audit from planning to execution to completion and compliance. Prior to finalizing the manual, comments of the Auditor General, Rajasthan will be obtained (and the consultants may also take the views of Institute of Public Auditors, Rajasthan).

19. (A3) Suggesting options for an audit management software:

- The consultant will suggest use of ICT tools to bring in transparency and efficiency and facilitate better use of available human resources and time. Based on the study and the framework developed by them, the consultant would suggest the design of a suitable complete e-solution for the audit processes i. e. IT based audit management software AMS to address the needs of the department. The consultant will include the cost of the software and other required software licenses in its proposal. The design of the proposed AMS will be agreed with LFAD but will include (but not limited) the following principal functionalities:
 - Preparation of Annual Audit Plan and audit programs
 - Assignment of audits to audit parties and management of postings etc.
 - Preparation and monitoring of tour programs
 - Reviewing progress of audit vs the plan
 - Generation and submission of audit reports
 - Scrutiny and approval of audit reports
 - Electronic Document repository - working papers, circulars, notifications, manuals etc
 - Surcharge action
 - Reporting system including dashboards
 - Compliance management
 - Interface for public and auditees and with the existing Audit Compliance Tracking System (ACTS) and suggest improvements, is any.
 - Internal communication (email): head office to regional offices and vice versa
 - Grievance

The AMS would be deployed at the head office and eight regional offices of LFAD and the number of users would be approx. 4 and 16, respectively. The intellectual rights of the software, codes and other software licenses would be transferred to the GoR which can be used by GoR in LFAD or any other department. The Consultant will provide technical support in procurement\development and installation and subsequent roll-out of the AMS. The consultant

² The present audit manual is of 1991 edition.

will also prepare technical and user manuals for the AMS. The consultant is also required to study the current hardware deployment status in the department and suggest suitable hardware requirements for the department based on the suggested AMS. Use of the AMS would be part of the pilots and the capacity building program (as below). The GoR would procure the required hardware as per the consultant's report.

20. (A4) Demonstrating value-addition through risk-based audit pilots and “proof of concept” for contemporary audits

- Develop an Audit Work Plan to demonstrate the benefits of the suggested framework and the usefulness of the audit manuals. Conduct a workshop with senior auditors to discuss and agree on the audit priorities, scope and strategic objectives for five pilots to be conducted as a demonstration.
- Carry out the five pilots on local fund audit including performance audit. This will include one rural local body at each tier (i. e. district, block and village Panchayat), one urban local body and one local body other than mentioned above in one of the Regional Offices of LFAD outside Jaipur. One of the pilots should be a performance audit. The pilots will be conducted along with a core group of auditors designated by GoR. This will cover the entire audit cycle i.e. from audit planning to reporting, including risk assessment, maintaining audit working papers and writing audit reports. The use of the AMS will be established in the audit process. The consultants will also demonstrate the use of IT audit tools for mining data and collecting evidence (computer assisted audit techniques - CAATs) taking up a live example of an auditee working in an electronic environment i. e. maintaining accounts through an application.
- Dissemination of the results of the pilot in stakeholder workshop(s).
- Based on the pilots and feedback, revise the audit framework/manuals and suggest appropriate steps to GoR for implementing the suggested approach including the audit manuals.

21. (A5) Training Strategy and Capacity Building

- Conduct Training Needs Analysis (TNA) for skills enhancement of local fund audit staff based on the suggested framework. The existing set of knowledge and skills should be reviewed and compared with the required skill set. Based on such a review, the training requirements in the entire hierarchy of officers/officials and the entire spectrum of their functions should be determined. This should be done keeping in view the need for using IT.
- Based on the pilot(s) and Training Needs Analysis, suggest appropriate Training Strategy, including IT audit tools that GoR may wish to consider for further enhancing the skills of the audit institutions and improve the effectiveness of the audit function.
- Two sets of training materials will be developed in the local language (Hindi).

- One, which should demonstrate the use of risk assessment including aspects related to governance, operations, IT systems and laws & regulations impacting the institution or activity, audit sampling and audit programs, determination and testing of key controls, collection of audit evidence, analysis and synthesis of the findings (risk flags), using concepts of materiality and distinguish between systemic and isolated weaknesses and fraud and misuse and appropriate presentation of the findings (i.e reporting with executive summaries) and recommendations for addressing the findings and report writing.
 - Second, which would help upgrading the skills of the auditors in specific subjects such as Service rules; relevant acts and rules applicable to the audit entities; double entry; and analysis of financial statements etc. which have been identified during TNA in consultation with the department?
- Train key identified audit staff as “Champions” (number to be trained to be mutually agreed between GoR and the consultants) on the suggested approach and revised audit manual. Training materials to train key staff / trainers shall be developed based on the finalized manual. For sustainability, refresher training will also be held after one year of initial training during the handholding support phase.
 - Train the audit staff (approximately 200) in groups. The duration of the training program would be for a period of depending on the requirements for initial and refresher trainings and will be imparted in the local language Hindi (as far as practicable). The Training Strategy should be fine tuned after getting the feedback from the trainees during the conduct of training programs.

Part B

22. (B1) Handholding Support

The consultants will deploy staff to provide handholding support in conduct of audits for one round of audit for a period of 24 months extendable as decided by GoR. Consultant staff will be available at the head office and at least one regional office (outside of Jaipur). This will include providing on the field guidance in audit planning, supporting GoR to develop a detailed audit work plan for the first two years as per the new audit framework, risk analysis, conduct of audit, use of AMS, audit reporting and follow up, refresher training, and amendments to the manual/guidelines based on actual implementation.

Indicative Deliverables, Timelines and Payment Terms

23. The indicative deliverables, timelines and payments terms for the following activities (except Handholding Support), which will be a lump sum contract value, are as follows. The man months are expected to be 92 for Part A and 84 for Part B.

Deliverables (Part A)	Timelines (from commencement)	Payment schedule (%age of contract value)
Inception Report	1 month	10%
Progress report	2 months	--
AS IS study and Gap analysis report; current hardware status in LFAD; draft Training Needs Analysis	4 months	10%
Draft Local Fund Audit Strengthening Plan including time-lined action plan; design for Audit Management Software and proposed hardware requirements; Communication Strategy	6 months	20%
Draft Local Fund Audit Manual	8 months	15%
Report on Pilots conducted and Final Strengthening Plan, Local Fund Audit Manual and Training Needs Analysis	12 months	10%
Roll out of the Audit Management Software and its Technical and User manuals	12 months	15%
Training Strategy and Training materials	12 months	10%
Report on Training of Champions and Audit Staff	15 Months	10%

All deliverables will be reviewed and accepted by GoR before the payment is due.

Part B: The activity relating to Handholding Support for one round of audit and refresher training would be time-based for a period of 24 months for which the consultants will be paid according to actual time spent as mutually decided with GoR.

Focus Area II – Enhancing Effectiveness of Internal Audit in Government of Rajasthan

Brief overview of the Internal Audit Institutions in Rajasthan

24. GoR has a two-tier internal audit system. The Inspection Department within the Finance Department carries out internal audit (in fact it is called “Internal Enquiry by Inspection Department”) of the offices of the Head of Department (HoD). Additionally, it conducts special audits and physical verification of stores. This is under a Director, Inspection. At the subordinate offices of the departments, internal audit function is carried out by their respective Departmental Internal Audit Wings (IAW) at the disposal of the Head of Department, functionally under the Financial Advisor/Controller. Departmental IAWs function on their own in the absence of any central coordinating or guiding unit and the staff has no linkage with the Finance Department.

25. The current internal audit function operates within the framework of a compliance audit environment with limited resources made available for this purpose and is more in the nature of inspection rather than system or management audit with less or no focus on internal controls review and evaluations. The main focus is on auditing payment vouchers. The existing audit practices are guided by an audit manual issued in 1982, but lacks defined audit standards. A system of audit programs is in practice in the Inspection Department and departments such as Public Works. The categorisation of audit cycle, entities to be covered and the time frame is outlined in the manual. One visit would cover multiple

years and number of days allotted depends upon the volume and complexity of the auditee-unit. Audit programs are prepared and available on the website of Finance Department. Coverage of audit plans is uneven and not sufficiently linked to risk and a basic sampling technique is practiced. Therefore, internal audit is essentially input-oriented and does not take into account the various e-applications (such as IFMS) implemented in the state and its role does not extend to identification of systemic improvements.

26. The above issues reflect limited staff capacity with no program for capacity building on the anvil. A substantial effort will therefore be required to improve technical capacity and move towards meeting international standards. This limitation is aggravated with the introduction of IFMS as there is skills-set gap in internal auditors to carry out electronic audits. There is no exposure to modern audit management software or computer aided auditing tools (data generation and analytical tools) to take advantage of IFMS functionalities. There is a tendency to re-appropriate internal audit staff for other purposes and vacant positions may not be filled.

27. Notwithstanding the gravity of irregularities pointed out by the Director of Inspection/departamental audit wings, the follow up action is inadequate and tardy. Lack of follow-up by the executive in responding to internal audit reports is another major drawback and hence impact of internal audit is marginal.

28. A central authority with overall responsibility for internal audit is missing in the current setup. The function is characterized by inadequate stature and organizational structure (there is no clear mandate for internal audit), archaic audit practices, absence of auditing standards and manuals, lack of central guidance, and insufficient human resource capacity in terms of number (40-50% of internal audit positions are vacant) and skill sets have resulted in backlog of audit and accumulation of unresolved audit observations, thus undermining the effectiveness and efficiency and also relevance of the function. Audit staff assume operational functions and can be deputed to the departments where audits are conducted and audit staff report to the department which is being audited.

29. Internal Audit is an important part of state's Internal Control framework. Impact of audit is currently marginal and therefore the function needs to be re-structured to improve efficiency and effectiveness. Internal Auditing is not yet fully appreciated as a management tool for the review and evaluation of risks and internal controls in the departments. The system is in need of modernization, with adequate emphasis on systems, rather than only on transactions, based on a calibrated risk assessment and profiling. There is clearly a need for strengthening internal audit function in line with modern concepts such as risk based internal audit. The need for this cannot be stressed more since state's revenue and expenditure amounts have been constantly increasing. Capacity in the internal audit function has to be strengthened and made increasingly relevant in supporting strengthening internal management in the departments and achieving control outcomes.

30. With the changing PFM environment in the state and the growing expectation from audit institutions, internal audit faces several challenges that restrict its efficiency and effectiveness. With this intent, GoR now seeks to engage experienced consulting firm/s to develop a road map for strengthening internal audit institution in GoR, provide support in introducing modern audit techniques and support capacity building and skills upgrading, in an incremental and phased manner.

Objective of the Assignment

31. The overall objective of GoR is to unify the internal audit universe and strengthen the internal audit function in Rajasthan, shift the focus of internal auditing to a more risk-based system-based-approach, and equip the auditors with the skills of modern audit practices, including auditing through the automated systems in the state. The intent is to enhance effectiveness of internal audit to play a wider role in accountability and bringing in value to the function by raising the profile and performance of this vital function in the state. This is intended to be achieved through empowerment of staff with latest skills, improved audit procedures, and more efficient audit processes. GoR wishes to proceed in an incremental and phased manner.

- Phase I would involve an AS IS analysis, developing Roadmap for strengthening the function, developing a risk-based audit manual and carrying out pilots to demonstrate “proof of concepts” for contemporary audit techniques.
- Based on the above results, the next phase/s would involve developing practice guides, demonstrating risk based audit, and audit using ICT tools concepts through pilots and suggesting capacity building strategy and train audit staff with the aim to (a) improve the ability of internal audit staff to query, extract, and carryout internal audit work using computerized systems such as FMIS; and (b) develop internal core training competencies in GoR in internal audit too facilitate a wider training program over the medium term.

32. For this first phase, GoR now invites experienced consulting firms to express their interest in carrying out an AS IS analysis of the present internal audit function in GoR (which will cover the Inspection Department at the central level and the departmental internal audit units), develop a roadmap for strengthening (TO BE strategy), develop the audit manual and demonstrate “proof of concept” for modern audit techniques through pilots.

Detailed Scope of Work

33. (A1) Diagnostic or situational analysis (AS IS study) and developing a Roadmap

- Study and document the existing inspection/internal audit functions in GoR (AS IS study) at the Director Inspection and departmental levels, which will include the organizational structures and responsibilities, independence, staffing and skills, mandate/scope of audit, practices and processes, reporting arrangements, responsiveness to audit reports and quality assurance.
- Identify the gaps that are constraining establishing an effective internal audit function (GAP analysis based on generally accepted internal auditing standards). Also, map the staffing available for inspection and internal audit and a quick assessment of their skills
- Develop a Roadmap (TO BE) for providing strategic direction for modernizing the internal audit function in the state with a new vision within the current environment with minimum possible disruption through revamping or re-organizational changes.
The Roadmap should include (but not limited to) the following:

- Recommendations on an optimum institutional structure for the internal audit function considering the future needs (including mandate for higher level audits and enhancing independence of the function) - whether the function should continue under the highly decentralized structure or should it be brought under a centralized command or a variation where, while keeping its decentralized form, a central agency is available for coordination and guidance and spearheading the function.
- Recommendations on expanding mandate/scope of audit including need for an audit act; higher level audits such as risk-based audits, system audit and thematic audits; coping with the backlog of audits and the methodology to address the backlog and minimize build-up in future; restructuring audit practices through Audit Management Software and ICT tools; related HR responsibilities and audit skills that are needed to achieve this and strategy to overcome the arrears in audit; an effective mechanism to enforce production of records and documents for audit and resolution of audit findings by the auditees.
- The Roadmap with action plan should delineate clearly the roles and responsibilities for reforms to be carried out. The Roadmap would also provide good practices, both nationally and internationally, that could be considered for adoption in the state.
- Suggest material to communicate, through case studies, the usefulness of Internal Audit to the auditees to facilitate change in audit perception from the traditional fault finding approach to a management tool.
- Prepare an IT plan for the internal audit function in the state. Suggest use of technology to bring in efficiency such as through audit management software or computer aided auditing tools. The Consultant would detail the benefits and the pre-requisites for use of these ICT tools and evaluate the various internal audit solutions available and the options (COTS or bespoke) available in the market and their cost of ownership and implementation and license costs, and the technical specifications of the software and the related hardware requirements, so that GoR takes an informed decision on the procurement of these tools.
- Hold workshops with stakeholders and discussions with top management to agree on the set of possible recommendations (action plan) and provide appropriate sequencing (short, medium and long term), the resources needed and changes needed in the various financial rules and regulations.

34. (A2) Modernize/develop Internal Audit Manual

- Based on the suggested Roadmap and the new approach to audit, the consultant will modernize/develop an audit manual for inspection/internal audit incorporating the policies and procedures for conducting the audit and managing the function including audit standards, modern audit methodologies, approaches and techniques. In developing the audit manual, good practices in other jurisdiction should be studied and appropriately incorporated and the audit practices and

procedures should comply with generally accepted auditing standards. Standard formats and checklists (entity-wise or area-wise) should be developed to ensure uniformity and focus in audit approach. The manual should cover risk based audit methodology in detail as well as an outline of an appropriate MIS, including the formats, to capture the progress of audit from planning to execution to completion and compliance. Prior to finalizing the manual, comments of the Auditor General, Rajasthan will be obtained.

35. (A3) Demonstrating value-addition through audit pilots and “proof of concept” for contemporary audits

- Develop an Audit Work Plan to demonstrate the benefits of the suggested framework and the usefulness of the audit manual. Conduct a workshop with senior auditors to discuss and agree on the audit priorities, scope and strategic objectives for three pilots to be conducted on a demonstration basis. Through these pilots, the consultant will demonstrate undertaking specialized audits such as scheme audit, procurement audits, payroll audits, system based (audit through IFMS) and risk based audits including the use of ICT audit tools. The pilots will be conducted along with a core group of auditors designated by GoR.
- Carry out the pilots as agreed which will cover the entire audit cycle i.e. from audit planning to reporting, including risk assessment and use of IT audit tools for mining data and collecting evidence, and for maintaining audit working papers. At the end of the pilot, the consultants will demonstrate the writing of audit reports.
- Dissemination of the results of the pilot in stakeholder workshop(s).
- Based on the pilots and feedback, revise, as required, the Roadmap and audit manuals and suggest appropriate steps to GoR for implementing the suggested approach.

Indicative Deliverables, Timelines and Payment Terms

36. The total man-months estimated are 32. The indicative deliverables, timelines and payments terms for the following activities, which will be a lump sum contract value, are as follows.

Deliverables	Timelines (from commencement)	Payment schedule (%age of contract value)
Inception Report	1 month	10%
Progress Report	2 months	--
AS IS study and Gap analysis report	3 months	10%
Draft Roadmap for Strengthening Internal Audit in Government of Rajasthan	5 months	25%
Draft updated/modernized Internal Audit Manual	7 months	20%
Report on Pilots	9 months	20%
Final roadmap with agreed time bound action plan and final Internal Audit Manual	10 months	15%

All deliverables will be reviewed and accepted by GoR before the payment is due.

37. List of key positions, whose CV and experience would be evaluated

The consulting firm expressing interest in the assignment should demonstrate that they have successfully carried out similar work at the sub-national level in India and have sufficient qualified key staff to undertake the proposed assignment, as below. The key staff will be supported by adequate number and qualified staff experienced in audit. Ability to speak and read Hindi would be essential.

Position	Qualifications/Experience
Team Leader	<ul style="list-style-type: none"> • A member of the Institute of Chartered Accountants of India or similar professional accounting body or a former senior official from the C &AG • Additional qualification in internal audit or government sector audit • Minimum experience of 15 years demonstrating experience in setting up audit systems, developing audit manuals, training in audit, IT audit, BPR <i>Desirable</i> <ul style="list-style-type: none"> • Have worked as a key member in at least one similar assignment during the last 5 years. • Having a Certified Information Systems Auditor (CISA) or similar recognized certification from a professional body
Project Manager for Focus Area I – LFAD	<ul style="list-style-type: none"> • A member of the Institute of Chartered Accountants of India or similar professional accounting body • Minimum 10 years’ experience demonstrating experience in full audit cycle in public sector, including experience in IT audit, writing of audit manuals and developing and delivering training programs. Experience in audit at state government level and local government levels will be an added advantage. <i>Desirable</i> <ul style="list-style-type: none"> • Additional qualification in government sector audit • Have worked on at least one similar assignment during the last 5 years.
Project Manager - for Focus Area II – Internal Audit	<ul style="list-style-type: none"> • A member of the Institute of Chartered Accountants of India or similar professional accounting body • Minimum experience of 10 years demonstrating expert knowledge in internal audit with at least 5 years in government/IT internal audit • Have worked in at least one similar assignment relating to internal audit reform and improvement during the last 5 years • Having extensive experience in use of ICT audit tools developing and delivering pilots on audits
Domain Expert - Government Financial Systems for Focus Area I – LFAD	<ul style="list-style-type: none"> • A member of the Institute of Chartered Accountants of India or similar professional accounting body OR a former senior officer from the C & AG, central/state finance services. • Minimum experience of 10 years demonstrating expert knowledge of government financial systems including government audit • Having worked on matters relating to local bodies for at least 3 years <i>Desirable</i> <ul style="list-style-type: none"> • Have worked on at least one similar assignment during the last 5 years.
Domain Expert - Internal Audit	<ul style="list-style-type: none"> • A former central government senior official from finance services with at least five years’ experience in internal audit in central/state government
Training Expert	<ul style="list-style-type: none"> • Graduate in Mass Communication or similar professional qualification • Minimum 5 years experience demonstrating experience in conducting training

Position	Qualifications/Experience
	needs analysis and preparing training strategy in at least 2 assignments preferably one assignment on audit
IT Business Analyst	<ul style="list-style-type: none"> • Bachelor's degree in Business Administration or Computer Science / Information Technology • Proficiency in various software/programming technologies coupled with hardware technologies • Minimum 5 years' experience demonstrating assessment of business processes, evaluating software and hardware requirements and rolling-out software application • Certification like Certified Business Analysis Professions (CBAP) or working on Automated Audit Systems or working on assignments for the government would be an added advantage

Besides the above, the consultant will include support staff as required including audit experts, subject matter specialists for providing training, handholding and other IT experts including (HW analyst, programmers and/or integrators). The support staff should be professionally qualified with relevant experience.

38. Services & Support to be provided by GoR

- The assignment will be administratively coordinated by the Project Director of the Project Management Unit established under the PFM project.
- Technical coordination will be done by a designated staff in the PMU.
- A team will be constituted to provide feedback on the draft deliverables.
- The PMU will coordinate with the local bodies/departments for the pilots and to designate staff for training, and facilitate meetings with the stakeholders.
- For training, GoR will provide the venue and bear the cost of the trainees, but all other requirements for the training needs to be arranged by the Consultant.