

REQUEST FOR PROPOSALS

Selection of Audit Firm to Carry out Internal Audit Function of Public Utilities Commission of Sri Lanka

Terms of Reference

1.1 Background:

Public Utilities Commission of Sri Lanka (PUCSL) has started regulating the electricity industry in April 2009, with the enactment of Sri Lanka Electricity Act, No. 20 of 2009. PUCSL has already established the key regulatory mechanisms needed to effectively regulate the electricity industry in Sri Lanka. Licensees have already been issued to generate, transmit and distribute electricity. In accordance with item (1) (a) of section 4 of the Electricity Act, No. 20 of 2009 (as amended) (The Act), the Commission's objective is to protect the interests of consumers in relation to the supply of electricity, by promoting efficiency, economy and safety by persons engaged in, or in commercial activities connected with, the generation, transmission, distribution, supply and use of electricity.

The Internal Audit Terms of Reference describe the objectives, purpose, authority, responsibilities and Functions of the Internal Audit.

1. The overall objectives of the internal audit are:

- To express an independent professional opinion with regard to efficiency, effectiveness and economy of the program operations & transactions.
- To ascertain and evaluate the adequacy and effectiveness of the financial & operational management and internal control framework.
- To ascertain compliance of the laid down policies, procedures, various guidelines, manuals, etc as applicable to the Commission.
- To identifying areas for improvement and critical weaknesses, and provide recommendations with implementation time plan.
- To provide financial management with timely information and recommendations on overall management aspects to enable timely corrective actions, as necessary.
- To ascertain accountability and transparency of all transactions including Financial Reporting aspects & events applicable for a financial year

2. Purpose & Responsibilities

The purpose & responsibilities of having Internal Audit function of the Commission is as follows.

a. Internal auditor should monitor and assess the adequacy and robustness of the systems and procedures of the Commission

b. The internal audit activity must also evaluate the exposures relating to the Commission's operations and information systems including;

(i) reliability and integrity of financial and operational information

(ii) effectiveness and efficiency of operations and programs

(iii) compliance with Laws, regulations, policies, procedures, and contracts.

c. Internal auditor should work with the audit committee to setup priorities by developing and implementing the audit plan.

d. Internal auditor should typically be able to carry out ad-hoc investigations at the request of the Audit Committee, the Commission & the Chairman.

3. Functions

(A) Scope of the work

As stated above the internal auditor should work with the audit committee to setup priorities by developing and implementing the audit plan. To do so the internal auditor must have a sound understanding of the functions and the key risk faced by the entity.

- a. Review significant accounting and reporting issues including Complex and unusual transactions highly judgmental areas and recent professional and regulatory pronouncements and understand their impact on financial statements.
- b. Review other sections of the Annual Report, Annual Activity Plan and related documents before the release and considered the accuracy and completeness of the information.
- c. Review with management and external auditors that all methods required to be communicated to the audit committee have been properly communicated
- d. Review the financial reports with management and if required with external auditor before filing with external parties and consider whether they are complete and consistent with information.
- e. Review Consultancy awards, contracts and procurements with their activity plan and submissions.
- f. Preparation of annual audit plan and all other major changes to the plan
- g. Review the internal audit activities with set KPIS based on management request.
- h. Consider effectiveness of entities internal control system including security and the control of Information Technology
- i. Review the procurement procedure and progress of implementation of the procurement plan

(B) Risk Management

- a. Identification evaluation and assessment of the face profile of the Commission having taken into account commissions legal and regulatory background macroeconomic dynamics etc.
- b. Development & implement a risk management framework and internal control system including a risk rating mechanism.
- c. Recommend strategies to mitigate the risks
- d. Examine and determine the sufficiency of commissions internal processes for reporting on and managing the key risk areas.

(C) Compliance

- a. Subsistence for monitoring compliance with laws and regulations directives and the results of Management investigation and follow up of any instances of non-compliance
- b. Review the findings of any examinations by relevant authorities and any observations of the auditors
- c. Established the process to ensure compliance with Lowes regulations relating to statutory obligations including EPF, taxes, custom duties, foreign exchange and other Laws applicable to the Commission.

(D) Operational

- a. Review the operation and activities of all divisions including Regulatory affairs, Tariff, Consumer Affairs, Renewable Energy, Corporate Communication, Licensing, Information Technology, Finance, Human Resources Administration and legal ,etc
- b. Introduce proper internal control and Systems to mitigate all the risk and to ensure payment procedures and spending requirements
- c. Review all recurrent and capital nature transactions and they are compliance with the set procedures
- d. Check the Delegation of Authority documentation and its compliance with the day to day transactions.
- e. Introduce systems and procedures to get the maximum return for the money spent by using 3 Es. (efficiency effectiveness and economy)
- f. Check significant accounting & reporting issues including Complex and unusual transactions highly judgmental areas and reason professional and regulatory pronouncements and understand their impact on the financial statements.
- g. Funds have been used in accordance with the relevant financial norms and financial regulations with due attention to economy and efficiency, and only for the purpose for which the financing has been provided included fund management.
- h. An assessment of the adequacy of financial and administrative delegation and segregation of duties and controls. And, assessing expenditures incurred/ advances provided are duly authorized as per the financial manual and administrative procedures approved by the Commission.
- i. Adequate and proper supporting documents, namely, purchase orders, tender documents, invoices, vouchers, receipts, pay bills etc. are maintained and linked to the transactions.
- j. Reconciliation of Bank Statements and accounts is regularly carried out on a monthly basis and necessary corrections on account of Bank's credits/debits.
- k. Assets: Completeness, existence, recording, safeguard and utilization for the purpose intended including, physical verification of sample of assets.
- l. Ascertain the reliability of integrity, controls, security and effectiveness of the operation of computerized system. Identify constraints, if any, in the timely updating of the SAP Accounting system. and in adhering to the internal control procedures.
- m. The scope of work will additionally include detailed review of the issue of advances, staff advances and cash payments for items purchased.
 - (i) Staff Advances: a. Review of advances paid to staff, their purpose and if the staff rules in this regard are followed. b. Review the settlement of staff advances as per the operational rule of the programme. c. Present a status report of the pending staff advances for more than one month old.
 - (ii) Cash Payments: a. Review the payments made in cash in the programme b. Review the record keeping for recording the purchases made against cash

4. Reporting and Deliverables:

The internal auditors should furnish a quarterly audit report (along with the checklists) to each Audit Committee meetings with an executive summary of the critical issues/findings that require attention of

the senior management. For all findings they should provide with detail recommendations which are possible to implement within the next 1 to 6 months by the Commission.

5. Audit Resources:

The list of key personnel and whose CVs and experience requirement are as follows:-

Number of Key Professionals (Per Quarter)

a. Partner/Audit Manager -Overall coordination, & planning, and team leadership, reporting, liaison with client.

Qualified Chartered Accountant with at least 10 years of experience as a partner/manager with expertise in the area of internal audit planning, execution and reporting -1 person/ 02 – 08 days

b. Audit Team Leader - Responsibility to lead the audit teams in the field, planning and execution of the audits, discussions with head of office at state and report writing and finalization.

Qualified Chartered Accountants with at least 5 years of experience in internal audit with expertise in procurement audit desirable and with ability to lead the team and interact with senior level government officials - 1 person /05 – 20 days

c. Team Member - Person with experience in SAP, budgets, and financial rules of the Govt. experience in procurement audit desirable. Sufficient numbers 05 –20 days

d. Team Member - Assistant with experience in internal audit and report writing. Experience in overall internal audit is desirable. - Sufficient numbers 05 – 20 days

6. Reporting Format:

The audit report will be in the form of a Management Letter (including an Executive Summary, highlighting key issues for management) which will inter alia have the following sections:

- Objective of the audit;
- Methodology of the audit;
- The status of implementation of the financial management records, system and controls;
- The status of compliance of the previous audit report, including major audit observations pending compliance;
- The key areas of weaknesses, needing improvement • Recommendations for improvements in detail

7. Fees Structure:

With detail breakdown on Quarterly basis billing to the Commission. With the relevant taxes shown separately.

8. Duration of the Assignment:

The duration of this internal audit function will be for a period of one year from the effective date.

2. Selection Procedure

2.1 Collection of Request for Proposal

This RFP is available on the Commission's website at www.Puscl.gov.lk. It can also be collected from Reception at Commission's office between the hours of 9.00 am and 4.00 pm until the closing date.

2.2 Submission of Proposals

Proposals are to be:

(a) submitted by **2:00 pm on 27th May 2023** and should be addressed to the Chairman, Procurement Committee, Public Utilities Commission of Sri Lanka submitted in two (2) separate sealed envelopes marked in upper left-hand corner" Selection of Audit Firm to Carry out Internal Audit Function of Public Utilities Commission of Sri Lanka"

(b) in respect of:

- i. Technical Proposal
- ii. Financial Proposal

(c) placed in the designated box located at the Reception of the Commission's office, Level 06, BOC Merchant Tower, No.28, Michael's Road, Colombo 03.

It is earnestly request to adhere to the deadline because, the proposals submitted after the deadline will be automatically rejected and returned unopened to the bidder.

2.3 Opening of Proposals

Proposals will be opened **on 27th May 2023 at 2:30 pm** in the Conference Room of the Commission's office. Bidders or their representatives who submitted proposals are invited to attend the opening. Only the Technical Proposals would be opened and the name of the principal bidder will be announced at the opening.

2.4 Requests for Clarifications

Any requests for clarifications regarding the assignment can be made to the following address (marking attention to Director Finance in writing or by email, not later than three (3) working days before the submission deadline.

Director General
Public Utilities Commission of Sri Lanka
Level 06, BOC Merchant Tower,
Colombo 03.
Or info@puscl.gov.lk

2.5 Technical and Financial Proposals

Technical Proposal

The Technical Proposal shall provide the information indicated under the following points from (a) to (c).

- a) A description of the Audit firm's experience on assignments of similar nature. For each assignment, the description should include a brief description of the project, names of Consultancy organization or other professional staff who participated, duration of the assignment, contract amount, and audit firm's involvement. All assignments completed by the audit firm working both privately or through other consulting firms should be mentioned. Audit firm should be prepared to substantiate the claimed experience if so, requested by the Client.
- b) A brief description of the approach, methodology and work plan for performing the assignment covering the following subjects:
- a. Technical Approach and Methodology - Briefly explain your understanding of the objectives of the assignment, approach to the services, methodology for carrying out the activities and obtaining the expected output, and the degree of detail of such output. Highlight the problems being addressed and their importance, and explain the technical approach that would adopt to address them.
 - b. Work Plan - Propose the main activities of the assignment, their content and duration, phasing and interrelations, milestones (including interim approvals by the Client), and delivery dates of the reports. The proposed work plan should be consistent with the technical approach and methodology.

Financial Proposal

The Financial Proposal shall list all costs associated with the assignment with detailed breakdown where activities and items described in the Technical Proposal can be priced separately; activities and items described in the Technical Proposal but not priced, shall be assumed to be included in the prices of other activities or items.

2.6 Evaluation of Proposals

Technical Evaluation

The technical/work program proposal would be evaluated before the envelopes containing the financial proposals are opened. The proposals will be ranked on the basis of the following maximum allocation of points for specific elements of each proposal:

Aspects	Maximum Score
Completeness of the proposed work program in response to the Scope of work	40
Academic and professional background of the audit firm: (i) Academic background and qualifications (15) (ii) Professional background and qualifications (15)	30
Experience of the key professionals: (i) General Academic and professional experience (15) (ii) Experience in similar assignment (15)	30
TOTAL	100

Financial Evaluation

After technical evaluation, the financial proposal of the audit firm ranked highest during the technical evaluation will be selected for evaluation and the contract will be awarded if the financial proposal value is within the budget available. If the financial proposal value of the highest ranked proposal exceeds the available budget, the proposal ranked next will be selected for financial evaluation.