

## TERMS OF REFERENCE FOR AUDIT OF VO<sub>s</sub>/CLF

### 1. Background

Government of Bihar is implementing multiple projects funded by the World Bank, /Govt of India through Bihar Rural Livelihoods Promotion Society (BRLPS). BRLPS has been set up by the Government of Bihar as part of its strategy to address rural poverty through enhancing the livelihoods of the poor. BRLPS is an independent and autonomous institution registered under the Society Registration Act, 1860. The strategy highlights building of pro-poor local institutions/ groups through nurturing institution of the poor by supporting formation, strengthening and empowering self-managed community organizations and adopting demand responsive and participatory processes. BRLPS also facilitates participation of poor and the disadvantaged in forming producer cooperatives and groups around key commodities – non-farm products and services.

### 2. Objectives of the Project

The objectives of project inter alia include:

- To contribute to the lives of rural poor across the state of Bihar through empowering and fostering strong self-managed grass root institutions and support investments by groups of poor.
- To promote microfinance institutions in order to deal with development of rural poor by way of providing financial assistance and obtaining commercial funding or by way of refinancing under the guidance of state level society with overall objective of developing microfinance sector in Bihar.
- To support village governance in becoming more responsive and effective in delivery of services and assisting rural poor specially the women.

### 3. Project Scope & Components

The targeting of the POPs will be to consider the existing social vulnerability and spatial distribution of the village based on these discriminations. The project will specifically target the destitute, vulnerable and disabled from the POPs first.

The project will build on the Bihar Rural Livelihoods Project across 6 districts and 102 blocks and the National Rural Livelihoods Project across 77 blocks of the state. The Bihar Transformative Development project (BTDP) will scale up the demonstrated approach from BRLP and NRLP across Bihar's 32 districts, in an additional 300 blocks of the state, BRLPS has also be initiated activities in 55 blocks of NRLM area. It has its presence in all 534 blocks of the state.

Besides above another project namely Mahila Kisan Sashaktikaran Pariyojana (MKSP) is to be implemented by the BRLPS. Project cost of MKSP has been estimated Rs 97 Crore.

The four broad components of the project are:

<b>Component under NRLM/NRLP</b>	<b>Component under BRLP / BTDP</b>
Institutional Building and capacity Building	Community Institution Development
Community Investment Support	Community Investment Fund

Special Programs	Specialist technical assistance funds
State Rural Livelihoods Mission	Project Management
	Health, Nutrition and Sanitation Interventions

Above components may vary from project to project.

#### 4. Implementation Arrangement

The Bihar Rural Livelihoods Promotion Society under the administrative Control of Dept. of Rural Development, Govt. of Bihar is led by its General Body, from which a more functional Executive Committee has been formed for taking all policy level decisions and advising the functionaries of the society on the management of the Bihar Rural Livelihoods Project. Representatives from the Government of Bihar, civil society, private sector, banks, academia, and developmental institutions form the executive committee of the Society.

**State Level:** At the state level, the **State Project Management Unit (SPMU)** has been formed and staffed with a team of dedicated development professionals to roll out the project and the society is headed by a **Chief Executive Officer**.

**District level:** At present District Project Co-ordination Units (DPCU) had been established in all districts. The District Project Manager heads the DPCU with primary responsibility of Coordinating with their blocks for effective implementation and convergence with ongoing programmes in the district.

**Block Level:** At Block level, Block Project Implementation Unit (BPIU) consisting 102 Blocks under BRLP, 77 Blocks under NRLP, 300 Blocks under BTDP and 55 Blocks under NRLM, has been established. The Block Project Manager heads the BPIU and is responsible for implementing most of Components I and II of the project. BPIU will work very closely with the Block /Village level Organizations of the community and the SHGs.

**Community Level:** At the community level the project will be implemented through the following community based institutions:

- a) Self Help Groups
- b) Village Organizations (confederation of a group of SHGs)
- c) Cluster Level Federation/Block Level Federations (confederation of Village Organizations)
- d) Economic Activity groups including Producers Company

Funds (various Grants) are provided to the community institutions (VOs, CLFS & CLFs) by the project based on fulfillment of specific agreed criteria including signing of MOUs. These grants are used by such institutions for on-lending to its members based on appraisal of members needs (Micro credit plans) by such institutions. These institutions are expected to maintain standardized books of accounts and prepare annual financial statements.

#### 5. Objectives of the Audit:

With the formation of a substantial number of Village Organizations –VOs (as federation of SHGs), Economic Activity Federations (EAG) and Cluster Level Federation (as federations of VOs) substantial resources & responsibilities relating decision making and management of funds i.e. to appraisal, lending and loan recovery etc. have been delegated to the VOs/ CLFs.

Also in the near term such institutions are expected to be registered under the Bihar Self Supporting Co-operatives Societies Act 1996. Therefore continuing with existing system of annual financial audit of such institutions is considered necessary for ensuring & instilling aspects of financial discipline, accountability and governance.

The objectives of the CBOs audit are to:

- (i) **enable the auditor to express a professional opinion on the annual financial statements of village organizations/CLFs/EAGs;** these would include Receipt and Payment, Trading and P/L Account, Balance Sheet (with annexure) and bank reconciliation statement etc.
- (ii) **comment on the on the effectiveness of the overall financial management arrangements** including the system of internal controls as documented in the Community Operations Manual (COM), MOU's and various guidelines for specific funds and the Project Implementation Plan (PIP).
- (iii) **Specific assertion that the grants from the project have been used for intended purpose and** bring to project's attention any fraud-related issues, including the diversion of funds from intended purpose or misuse of funds.

**6. Coverage and Standards for the Audit:** The audit would cover all Community Institutions (VO, CLF and EAG) which are proposed to be registered under Bihar Self Supporting Cooperative Societies Act 1996 and Economic Activity Federations (EAG) some of which are registered as producer companies under the Companies Act. The audit should be carried out in accordance with the Auditing & Assurance Standards prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the auditor considers necessary under the circumstances. However the auditors should keep in mind that BRLPS is a Community Driven Development Project wherein all resources are managed by the community and decision-making rests with the community.

## **7. Detailed Scope**

In conducting the audit, compliance and adherence to the following aspects need to be assessed to ensure that:

- (i) All funds (grants) received from the project have been used in accordance with the conditions of the relevant guidelines (CIF, HRF, FSF, Livelihood Fund and Social Fund Guidelines etc.) and only for the purposes for which the financing was provided. Auditor will submit the fund wise (FSF, HRF, ICF, Livelihoods etc.) expenditure and opening and closing balance of that fund in their report;
- (ii) all the required books of accounts as prescribed by the project and necessary supporting documents (vouchers, bills, receipt and distribution registers for food grains ), minute books, have been kept in respect of all project transactions & that clear synchronizations exists between accounting records, accounts books and the financial reports.
- (iii) Decisions taken are supported by adequate recording of the decisions in the minute books of the community institutions. Auditors will ensure that all documents are verified by them and put their signature on all books of records and vouchers.
- (iv) The financial reports and Utilization certificates (UCs) submitted by the VOs/ CLF/EAG to the BPIU are in agreement with the books of accounts. Auditor will certify the same and must be reported in executive summary.

- (v) Whether procurement has been carried out as per the community procurement guidelines as provided in the COM;
- (vi) adequate records (stock/ asset registers) are maintained to properly reflect the assets of the VO/CLF/EAG including details of cost, identification and location of assets and physical verifications of assets and whether these include farm implements procured under the Livelihood Grant (SRI/SWI).
- (vii) Capitalization and treatment of shareholders fund is as per instructions issued by the project.
- (viii) Whether there are any delays in timeliness of the funds flow to CBOs.
- (ix) In case of Economic Activity Federations comment on the profitability of activities carried out by federation.
- (x) VO is monitoring the receipt of periodic reports and utilization certificates from the SHGs & systems to follow up on overdue loans and reports are adequate.
- (xi) Balance in Bank accounts and with third parties (loans to SHGs etc) and fund transfers from the CLF/ Project are duly reconciled.
- (xii) Auditor has to submit fund reconciliation statement of CBOs and Project unit along with their audit report.
- (xiii) Auditor will conduct physical verification of CBOs assets on sample basis and must cover 10% of CBOs who have procured the assets more than Rs 50,000/- till the reporting period.
- (xiv) Auditor will verify the MOU between concerned unit with other institution.
- (xv) Auditor will also report on CBOs quality indicator.
- (xvi) Auditor will report on persisting irregularities and also on audit compliance of earlier audit observation.

**Auditor will ensure that all above points are covered in their executive summary/audit report. If any deficiency found in their work, audit report may be rejected and payment will not be made for that report.**

In case of audit of VO and CLF specific consideration needs to be given to the following aspect:

- a) In the initial period of implementation and until formation of VOs, ICF is transferred directly to the SHG with the understanding that after the formation of VOs the SHG shall repay such loan through VO's. On the formation of VOs necessary journal entries in the books of the VOs have been incorporated in the books of the VOs to reflect these as funds received and loans advanced to the SHGs. The auditor will be required to obtain the list of such loans to SHG from concerned BPIU and DPCU. The auditor will be required to issue a certificate with a copy of the journal vouchers & trial balance of VO confirming the treatment of entries in the books of VO as per GAAP and accounting standard.

**(A checklist has been provided to the auditors to facilitate review of the above aspects which needs to be completed for each VO/CLFs which are as under:-**

**Part A: Audit report-** It is divided into 5 parts beginning with the summary of the report.

**Part 1:- Opinion Part.**

**Part 2:- Irregularities and suggestions.**

**Part 3: Fund wise Reconciliation.**

**Part 4: Grading of Audit based on annexed check list.**

**Part 5: Reporting on activity of EAG and other Intervention at VOs/ CLFs level.**

**Part B:- It includes the Financial Statements as under:**

- I. Receipts & Payments Accounts.**
- II. Trading & P/L Account.**
- III. Balance Sheet(with annexure)**

**Part C: Executive Summary-** It is Block wise compilation of the audit report at VOs level in prescribed format.

## **8. Reporting & Deliverables:**

**The following reports need to be provided:**

- a) **Individual audit report of each institution (VO/CLF/EAG) in triplicate** shall be submitted to the concerned DPCU within 30 days of the completion of audit. The report should be submitted in Hindi as per the standardized format provided in the TOR. Besides the soft copy of audit report in Hindi, an executive summary in English (Hard Copy & soft copy in CD) be submitted for Block, district and State Unit (only CD) at District level under which key observations of the Block will be given. These must include (i) audit report; (ii) audited financial statements duly signed by the Secretary of the institution and the auditors; and (iii) Executive Summary (in English). The audit observations should be supported by instances and quantified, as far as practicable. Formats of the audit opinion, financial statements and checklists are provided in Annexure A, B & C. In case of EAG an additional statement comparing the budget as per approved activities and actual expenditures may be provided separately as per Annexure Part A (5).
- b) A summary of the key findings, implications and recommendations by each Block – including the CLFs and VOs covered, this must be prepared and discussed with the Block Project Manager to enable the Project Management to take timely action.
- c) The check list supporting for grading of the VOs as prescribed under part A (4) must be signed by OBs/BKs and Auditors. This should be included as part of Audit Report.

The report(s) and audit findings should be discussed and agreed with the auditable units including the president / Secretary of the VO/CLF and their views are obtained and discussions recorded in the minutes of the institutions. The report should be structured in a manner giving the observations, the implications of the observations, the suggested recommendation and the management comments/ agreed actions. The audit observations should be supported by instances and quantified, as far as practicable.

During the course of VO/CLF audit, if the auditor notices any defalcation or misappropriation of fund, the audit firm shall immediately bring the fact to the notice of the District office for necessary action. Village Auditor shall report any loss, waste or misapplication of money or other property owned by or vested in the village organization if such loss, waste or misapplication is a direct consequence of the neglect or misconduct of the VO's or any other subordinates with names of persons directly or indirectly responsible for such loss, waste or misapplication.

**C)** After completion of audit, the auditor is required to discuss the key observations with the office bearer/ book keeper and minutise the discussion & duly signed by office bearer/ book keeper & auditor.

**d) Workshop at Block level:** The BPIU would organized a workshop in which auditor will present the findings. The BPM will be responsible for workshop in which all the BPIU staff along with accountant and DPCU representative will participate. Auditor will share key observations of the audit and suggest measures to be put in place by the project to comply with the audit observations and strengthen controls.

**9. Data, services and facilities to be provided by the Client:**

- (i) **CLF/EAG/VOs** shall provide access to all vouchers, supporting documents, books of accounts, previous audit statements and all relevant documents.
- (ii) The auditor should be given access to all legal documents, last year audit report, correspondence, Books of Accounts, Financial Rules, Community Operations Manual, community procurement guidelines, Government Orders and Office Orders and any other information associated with the Project and as deemed necessary by the Village Auditor by block / district office (BRLPS). Confirmation should also be obtained wherever required and appended to the report. The auditor would be provided copies of the Project Implementation Plan, Project Appraisal Document (PAD) of the World Bank, the Community Operations Manual, and community procurement guidelines by BRLPS.
- (iii) One day's workshop will be organized by the BRLPS for giving details of project and important inputs and it should be attended by all the members of audit team.
- (iv) Active support from the officials at SPMU/DPCU/BPIU/CLF/VO levels.
- (v) Camp Audit arrangement will be made by Block Office.
- (vi) CBO wise fund transferred detail will be provided to the auditor by the district unit. Auditor will ensure to take the data from concerned DPCU. If aforesaid data will not be provided by the DPCU then auditor will inform the DPM/SPM-CF/PM-CF for the same. Before taking the detail of fund breakup, audit must not be started of those CBOs.

**10. Period & Timing Audit**

The Audit of Community institutions will be carried out for the financial year 2015-16. If any Community Institution formed in financial year 2014-15 and audit has not conducted for that FY than audit period will also cover the FY 2014-15. If any Community institutions have been formed during the financial year 2014-15 and no financial transaction have been made during that FY then no audit will be conducted for those Community institutions. The contract for audit may be renewed after assessing the pace of implementation, the project's needs and performance of the consultant for further two years.

Audit should start in the first week of August 2016 and shall be concluded by 30<sup>th</sup> Sept. 2016 and if contract renewed for the financial year 2015-16 onwards it may be concluded before 30<sup>th</sup> June of the next financial year. The Auditors should give advance tour program before commencing the audit. The Accountants, AC and CC will accompany the Auditors on the dates of audit.

**A. Procedure & Place of conducting audit at Community Institutions VOs And CLFs**

1. Camp audit will be conducted for all the Community Institutions. Camp will be at the Block offices of the Community Institutions.
2. Community Institutions President, secretary and treasurers has to carry the entire accounting books and related documents to their concerned BRLPS Block office on the date of Audit.
3. The auditor should give detailed work plan for conducting of audit to SPMU and concerned BPIU/DPCU Office. The auditor should inform the BPIU at least 10 days in advance of start of audit at VO/CLF and furnish the detail plan of the audit.
4. This will enable the BPIU to communicate the plan of audit to the community institution.
5. The audited financial statement shall be signed by the President / secretary of the community institutions.
6. Audit of accounts will be taken up preferably in the presence of their book keeper.
7. The auditor should ensure that, on conclusion of the audit, the audit findings are duly discussed with the President and Secretary of the VO/CLF and their views are obtained. The Discussion notes shall be signed by the audit team member and Office bearer.

**11. Composition of Review Committee and review procedure to monitor consultants work**

District Project Manager of the District office shall be responsible for review and monitoring the progress of the village audit. A committee consisting Manager – MF/CF, Manager – M& E and Finance Manager headed by DPM will be constituted at district level to review and monitor the progress of the assignment and take further remedial measures on the discrepancies pointed out in audit. The Review Committee will also recommend the payable audit fee to the auditor.

**12. KEY PERSONNEL**

<b>Sl.</b>	<b>Key Professionals</b>	<b>Description of Services to be provided</b>	<b>Experience</b>
1	Partner /Proprietor/ Audit Manager	Overall coordination, & planning, team leadership, reporting, liaison with project.	Qualified Chartered Accountant with at least 5 years' experience with expertise in the area of internal audit planning, execution and reporting.
2	Team members	Audit of VO, CLF & EAG	1 CA (Inter) and 2 B.Com level staffs with experience in Accounting, audit and report writing.