

Draft Terms of Reference for Internal Auditors of District Project Co-ordination Unit (DPCUs)

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 will also facilitate participation of poor through forming producer groups and companies for key commodities – non-farm products and services.

2. Objectives of the Society

The objectives of Society inter alia include:

- 2.1. To contribute to the lives of rural poor across the state of Bihar through empowering and fostering strong self managed grassroots institutions and support investments by groups of poor.
- 2.2. 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.
- 2.3. To support village governance in becoming more responsive and effective in delivery of services and assisting rural poor especially the women.

3. Project Scope & Components

- 3.1. Initially it was envisaged that the project is to be implemented over a period of 5 years, will cover around 5,00,000 target families in 4000 villages in 42 Blocks spread over 6 districts and the project cost was estimated at Rs 306 crores and later on in 2012 this project was scaled up in remaining 60 block of six district through additional financing of Rs. 716 crores.
- 3.2. In the year 2011 BRLPS has been nominated as nodal agency for the implementation of NRLM/NRLP in the state of Bihar. Under NRLM/NRLP remaining districts and Blocks covered with around 1.25 Crore families in 44,874 villages. Total project cost of SRLM has been estimated at Rs 9,200 Crores for 10 years.
- 3.3. After the closure of BRLP - Additional Finance, a project namely Bihar Transformative Development Project was initiated in Sep. 2016 covering 300 blocks in Bihar and remaining 234 blocks are currently under NRLM.
- 3.4. Besides the above, there is another project namely LSBA (Lohiya Swachh Bihar Abhiyan) for which BRLPS has been designated as nodal agency since 2016. This project is implemented in all the 38- Districts of Bihar under active participation of DRDAs. The main schemes under LSBA are –
 - a) SBM-G - (Swachh Bharat Mission - Grameen),
 - b) NNP / LIS - (Neer Nirmal Pariyojana),
 - c) LSY - (Lohiya Swachhta Yojana), and-
 - d) GAP - (Ganga Action Plan)

4. Implementation Arrangement

- 4.1. The Bihar Rural Livelihoods Promotion Society under the administrative Control of Rural Development Department, 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 over the management of Bihar Rural Livelihoods Promotion Society. Representatives from the Government of Bihar, civil society, private sector, banks, academia, and developmental institutions form the executive committee of the Society.
- 4.2. **State Level:** At the state level, the **State Project Management Unit (SPMU)** has been formed and staffed with a team of dedicated development professionals. The projects and the society are headed by **Chief Executive Officer**.
- 4.3. **District level:** The District Project Manager heads the DPCU with primary responsibility of Coordinating with their Blocks for effective implementation and convergence with ongoing Government Programme in the district.

- 4.4. **Block Level:** The Block Project Manager heads the BPIU and is responsible for implementing the projects in concerned BPIU. BPIU will work very closely with the CBOs.
- 4.5. At the community level the project will be implemented through the following community-based institutions:
 - a) Self Help Groups
 - b) Village Organizations (federation of a group of SHGs)
 - c) Cluster Level Federation (federation of Village Organizations).
 - d) Producers' companies/Producers Groups.

5. Objectives of the Audit:

- 5.1. The objectives of the internal audit are to enable the auditor to express a professional opinion on the effectiveness of the overall set in financial management and procurement arrangements. It has to be ensured that the overall financial management and arrangements including the system of internal controls as documented in the Project Financial Management Manual (FMM), Community Operations Manual (COM), Procurement Manual and the Project Implementation Plan (PIP) are in practice, effective and adequate. It is expected that the process of audit shall be in position to provide to project management with timely information on financial management aspects of the projects, including internal controls and compliance with financing agreements, to enable follow-up action.
- 5.2. In addition, it is expected that internal audit should play a role in assisting management to prevent misutilization of funds including the prevention, detection and investigation of fraud as part of "bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

6. Coverage and Standards for the Audit:

- 6.1. The audit would cover all projects/program/activities implemented by the BRLPS in allotted districts.
- 6.2. All the DPCUs auditors has to follow a uniform approach to the audit and reporting.
- 6.3. The auditor is also required to verify the IUFRR/project financial statements.
- 6.4. The internal 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.

7. Scope

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

7.1. Project level (DPCU):

In conducting the audit, special attention should be given to assess whether adequate controls have been established and complied with, to ensure that:

- (a) All external funds have been used in accordance with the conditions of relevant MoU/agreement with funding agencies, approved guidelines and only for the purposes for which the financing was provided;
- (b) All necessary supporting documents, records, and accounts have been kept in respect of all transactions including expenditures reported via Interim Unaudited Financial Reports (IUFRR) to ascertain that IUFRR are as per books of records and submitted in prescribed format to SPMU by DPCU.
- (c) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- (d) Project assets are adequately safeguarded and used solely for their intended purposes and
- (e) Risk assessment report is to be prepared by the auditor in the quarterly report:
 - (i) Identifying what are the risks in the project.
 - (ii) Assessment of risk (High, Medium, Low).
 - (iii) Ensure that there is an appropriate response to all risks.
 - (iv) Informing the authority about the risks which are outside acceptable limits, usually those which are not to be tolerated or taken as potential risks.

- (f) An assessment of the adequacy of the project financial management systems, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls and is there any need for revision in established policies, plan and procedures, reliability of accounting systems, data and financial reports, methods of remedying weak controls or creating controls in areas where they are lacking including verification of assets and liabilities.
- (g) Efficiency and timeliness of the funds flow mechanism at the DPCUs and BPIUs and to the Community Institutions. (Through compilation and consolidation of report up to VO level).
- (h) Whether the fund/ tranche released to the Community Institutions are properly recommended by the BPIU and approved by the DPCU having the necessary authority, and the conditions (triggers/ graduation criteria) for tranche release (as provided in the COM /FMM for various funds) have been complied and are in line with the financing agreement with the World Bank/funding agencies. Whether Projects milestones have been achieved before release of fund to VO/CLF?
- (i) Whether the DPCU is accounting for the tranche release properly in the subsidiary records and monitoring the receipt of periodic reports and utilization certificates from the CBOs & systems to follow up on overdue reports are adequate. Quantify (number and amount) of the funds transferred to the Community Institutions for which the reports and/or UCs are overdue.
- (j) Whether the accounts of the project are compiled in a timely manner and the expenditures consolidated on periodical basis at the DPCU level and submitted to SPMU.
- (k) An assessment of compliance with provisions of financing agreements (IDA Development Credit Agreement and Project Agreement), especially those relating to procurement, accounting and financial matters (For SPMU Auditor only).
- (l) Goods, works and services have been procured in accordance with the World Bank/NRLM procurement guidelines, financial & procurement manual of the Society.
- (m) All necessary supporting documents, records, accounts of all the activities have been kept in respect of all projects and that clear synchronizations exists between accounting records, accounts books and the periodic financial reports (internal and external i.e. Interim Financial Reports)
- (n) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets and physical verification of assets acquired by the project and comment on its uses;
- (o) The auditor is expected to obtain sufficient documentary audit evidence to support their audit observation/ conclusions.
- (p) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.
- (q) Internal auditors to summarize key issues and risks from a review of a sample of village audit reports and comment on actions taken by DPCU/BPIU.
- (r) The reports and other documents submitted by the CBOs to the BPIU, provides clear linkages with the books/records and reflect the correct financial position.
- (s) Certify the Project financial statements on half yearly and annual basis for the unit audited. (Auditor will prepare financial statement on half yearly and annual basis.)
- (t) The auditor or his representative shall be required to put the certificate with date on all manual records and books of accounts being verified. Any record not found to have the stamp shall be considered as not verified and shall be treated as deficiency in audit on the part of auditor.
- (u) District auditor will verify the documents/ physical verification of fixed assets / stock at DPCUs /BPIUs level on quarterly basis and submit verification report forming part of audit report.
- (v) Auditor will verify the no. of CBOs to whom fund was transferred during the quarter with available records at DPCUs.
- (w) Auditor will attach photocopy of last page of all manual register countersigned by them along with quarterly audit report.
- (x) Auditor will certify IUFR on quarterly basis with signature on IUFR and due verification of Tally data. If any difference is reflected in IUFR and Tally, the same should be reported in Executive Summary.

- (y) Auditor will verify all Microplan and CIF register and tally entries. Auditor will certify that no duplicate payment has been made in same CBOs.
- (z) Auditor will submit pending status of claim of staff/service providers/ Community cadres at DPCU level in separate annexure.
- (aa) Auditor will verify and certify the payments made to the beneficiaries/ service providers/ suppliers under LSBA with relevant documents available at DPCU/ BPIU and also check the MIS entry for the same.

7.2. CBOs Level (DPCU) :

- (a) The DPCU's Internal Auditors will provide a BPIU-wise brief summary, along with their (Internal Auditors') opinion/recommendations, over the observations/ recommendations given by the VO - Auditors.
- (b) The DPCU's Internal Auditors will perform Internal Audits, on Quarterly Basis to the Producer Companies (PCs) funded by BRLPS, if any working in their allotted DPCU/s. The Internal Audit of PCs is to be done in accordance with the concerned provisions under The Companies Act – 2013 and the agreement/s/ Terms of grants with BRLPS whereby the funds from BRLPS were provided to the PC/s concerned. The Quarterly Internal Audit Reports has to be submitted separately to the Producer Company, DPCU/s concerned and SPMU – BRLPS.

8. Data, services and facilities to be provided by the BRLPS

- 8.1. All the project documents, copies of agreement and relevant papers needed for audit will be provided by the BRLPS. The auditor would be given access to all documents, correspondence and any other information relating to the Projects which is deemed necessary by the auditor for carrying out the audit.
- 8.2. The auditor will be provided copies of the Project Implementation Plan, Project Appraisal Document (PAD) of the World Bank, Development Credit Agreement and Project Agreement with IDA, the Community Operations Manual, and Financial Management Manuals, Procurement Manual, guidelines, policies and procedures issued by Project Management.
- 8.3. One day's workshop will be organized by the BRLPS for giving details of projects and it should be attended by all the members of audit team.
- 8.4. BRLPS will extend active support of officials at SPMU/DPCU/BPIU levels.

9. Period, Timing and coverage of Internal Audit

- 9.1. The Internal Audit of DPCU will be for the period from 1st April 2019 to March 31, 2020 i.e. the financial year 2019-20 and will be carried out on a quarterly basis. The contract may be renewed after assessing the pace of implementation, the project's needs and performance of the auditors for further year/s on same terms & condition.
- 9.2. The auditor should become familiar with the Project and with the relevant policies and guidelines of the World Bank and other funding agencies (including those relating to disbursements, procurement and financial management and reporting).
- 9.3. The audit will be carried out on a quarterly basis.

10. Reporting

- 10.1. **Quarterly Reporting & Annual Reporting:** The Auditors will provide a quarterly report for the units audited (a summary of the key findings, implications and recommendations of each Block must be prepared and to be shared with the District Project Manager so as to enable the Project Management to take timely action). The report should be discussed with the auditee units and should be structured in a manner giving the observations, the implications of the observations and suggest recommendations to the management for necessary action. The audit observations should be supported by instances and quantified as far as practicable. Besides quarterly audit report, annual report will also be submitted by the auditor. Discussion notes duly signed by the both parties will be part of audit Report.

The audit reports (in hard and soft copy) should be submitted within stipulated time as mentioned in general clause of TOR. A penalty of 0.5 % per week or part thereof shall be deducted from the bill of audit fee. Any delay beyond 5 weeks for any quarterly report / annual report shall be treated as unsatisfactory performance by the auditor and may attract the termination of the contract without any financial liability of the Society. The reports will be submitted as under –

- Executive Summary to the Chief Executive Officer.
- The individual project wise audit reports to each of the auditee units along with a copy of the same to SPMU and SPMU internal Auditor.

The internal auditor should highlight the critical issues in executive summary which requires the attention of CEO, BRLPS and status of action on previous recommendation.

10.2. Format of the Audit Report: The Audit Report will, inter alia, have the following sections -

- Methodology of the audit;
- Executive Summary;
- Serious observation;
- The status of implementation of the financial management system;
- The status of compliance of the previous audit reports;
- The key areas of weaknesses that need improvement and
- Any other issues/recommendations/suggestions for improvements.

10.3. Procedure of conducting audit at DPCU

- The auditor should provide detailed work plan for conducting audit to DPCU, Contract Manager and CFO before one week from commencement of audit.
- The audit questionnaire and audit work sheet shall be signed by the audit team member and officials of DPCU.
- The necessary feedback can be given to the management on the outcome of the Audit from time to time. Information about any discrepancies can be shared with the management for rectification/clarification.
- During the audit the internal Audit team shall interact with management staff for any clarification.
- The auditor shall interact with the DPCU/BPIU/SPMU management before furnishing any report.
- After completion of DPCU audit, the auditor will submit the report to SPMU auditor for consolidation of serious observation made therein.
- The detail approach and methodology should be provided by the auditor themselves in the RFP.

11. Composition of review committee and review procedure to monitor internal audit work

The proposed assignment will be reviewed and monitored by a review committee constituted by BRLPS. This committee will be constituted to interact with the Auditor, review and monitor the progress of the assignment on a quarterly basis and take further remedial measures on the discrepancies pointed out in internal audit.

12. Key Personnel

The list of key personnel, whose CVs and experiences would be evaluated, is as follows:

SN.	Key Professionals	Description of Services to be provided	Experience	No. of persons	Total minimum Mandays
1	Partner/ Audit Manager	Overall coordination, & planning, team leadership, reporting, liaison with client , Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at DPCU & state units and report writing and finalization.	Qualified Chartered Accountant with at least 05 years experience as a partner with expertise in the area of internal audit planning, execution and reporting.	2	72
2	Team member	Audit of DPCU	CA (Inter) with 02 yrs. experience in Accounting, audit and report writing	6	48

Above minimum man days are for DPCU audit only. Besides this, one team member-day per quarter for each BPIU is required. The auditor will have to ensure minimum man days for audit of DPCUs including BPIUs.

Auditor will submit the CV of team leader and Team member with two coloured photo and educational qualification certificate along with RFP.

13. General

Time lines of the conducting of the audit will be as follows:

Quarter	Period of Audit	Time line for District Auditors
1 st	1 st April 2019 to 30 th June 2019	31 st July 2019
2 nd	1 st July 2019 to 30 th Sep 2019	31 st October 2019
3 rd	1 st Oct 2019 to 31 st Dec 2019	31 st January 2020
4 th and Annual Report	1 st Jan 2020 to 31 st Mar 2020	15 th May 2020

- (i) Final report of the audit will be submitted as per the timelines indicated above. The written acceptance of the report by the auditee unit will be considered as submission of the Report.
- (ii) Before start of the audit, the internal auditor will issue Identity Card to every member of the Audit team who have been proposed by the Auditors in the RFP. Any change in audit team due to unavoidable circumstances can only be done by the internal auditor after seeking prior 'no objection from the BRLPS'. The replaced member should be of similar or higher qualification and experience. Any change in team without no objection from BRLPS will not be eligible for audit.
- (iii) Audit report format will be provided by SPMU auditor to DPCU auditor for proper consolidation and compilation of audit at SPMU level.

Part A: Executive Summary including Suggestions/Recommendations

Provide an Executive Summary of the observations in Part A along with suggestions/recommendations. Only those observations that are very serious in nature and require immediate attention of the management should be reported in this section. Auditor should provide specific recommendations on referred issues.

Part B: Observations related to procedural lapses and weaknesses

In this part, give details of audit observations such as ineligible expenses, major lapses in internal controls, systemic weaknesses, procurement procedures not followed etc

Part C: Matters requiring attention of the management other than reported in part A and part B above

1. Auditor should point out the issues that are not serious in nature, but nonetheless require the attention of the management should be detailed in this part.
2. Persisting Irregularities: Under this Para, Auditor should report the persisting irregularities which have been raised earlier but not complied.
3. Books of Account: Under this, Auditor should verify all the books of account maintained by the unit, identify the discrepancies in the books of accounts and also suggest their improvement.
4. Internal Control System: Under this Para, auditor should report on discrepancies of current internal control system and suggest remedial measures.
5. Compliance with Finance Agreement, Project agreement PIP COM, PAD and FM Manual / devolution of power
6. Procurement Procedures: Under this paragraph auditor should report on procurement process which deviates from applicable procurement guidelines. Besides above, auditor will physically verify the fixed assets on quarterly basis and submit the verification report in separate annexure.
7. CIF Disbursement– List of CBOs to whom CIF has been disbursed, recommendation from LCM, verification of CIF disbursement from CIF Register, bank book and Micro plan, Utilization certificate received or not. Release of CIF following Panchsutra, COM, CIF guidelines, LCM, Micro plan and triggers for release of CIF. Date of issue of Cheque and actual date of receipt of funds by the CBOs, MIS entries of CBOs profile, observation of CBOs auditor, MoU with VO and MIS data vs. physical data of CBOs.
 - Detail to be attached in separate annexure.
8. Expenses and its variance (Physical and Financial) from Budget under CID/ CIF/PMU component. Variance of no. of training from annual action plan. Physical and financial achievement as per action plan and Budget, Verify the evidence of training and exposure from training report of TO on residential training and feedback from Participants etc. and also comments on unit cost of training and exposure.
9. Computerized financial Management system (Tally)
 - a) Data entries in tally/accounting software are up to date or not
 - b) Payroll accounting in tally or not
 - c) Verification of group, sub – group, head, sub head and ledger in tally and make suggestions on proper classification of accounts, if any.
 - d) Maintenance of Cost Centre in Tally
 - e) Chart of accounts and upload of approved quarterly budget in tally
 - f) Verify the computerized balance with Manual Books of accounts (cash Books, Cheque register etc)
10. Advance to staff and others and its periodicity
 - a) Age of advance
 - b) Settlement of advance within stipulated period with proper voucher
 - c) Pending bill for settlement of advance
 - d) Action on delayed submission of bills itted for settlement against advance after one month.
Detail to be attached in separate annexure.
11. Discrepancies in statutory deduction/ payments/return like TDS, GST, EPF , Professional Tax etc. and its compliances
12. Employee benefit in the light of HR manual and relevant office order.
13. Verify and certify the IUFRR from available books of records
14. Tracking of financial variance - Variance showing physical and financial achievement in the light of approved action plan and budget. Detail to be attached in separate annexure.
15. Observations on Micro plan:
 - a) Recommendation of CC/AC and BPM with amount of CIF

- b) Quality of MP
 - c) Data in prescribed format
 - d) Loan priority between member in MP
 - e) Any other observation
16. Auditor should verify the payments to the beneficiaries under LSBA through DBT (Direct Benefit Transfer) from the available records at DPCU/BPIU
 17. Auditor should check the procedure of procurement of goods / services as laid down under LSBA.
 18. Any other matter: Any other matter which auditor deemed fit for notice to the management.
 19. Suggestion with specific case for improvement

SUGGESTIVE QUESTIONNAIRE FOR DPCU (GIVE SHORT DETAILS OF DIVERGENCE):

1. Whether Office has maintained proper records showing full particulars including quantitative details and status of fixed assets?
2. Whether all assets including current assets like inventories has been physically verified during the quarter?
3. Whether the loans and advances are being repaid / adjusted in a timely manner?
4. Whether loan and advance register updated or not?
5. Whether the manual cash book is properly maintained and whether it conforms with computerized system of accounting?
6. Whether Physical cash balance is as per cash book balance as on the date of audit or not?
7. Whether expenditure has been made as per the devolution of power or not? Details of any divergence should be mentioned.
8. Whether bank book is properly prepared and whether the balance as per the pass book conforms to the balance as per the bank book or not? Reasons for deviation given in BRS must be based upon facts and figures.
9. Whether proper training programs are being conducted?
10. Whether the training expenditure is as per the budget and whether the training report is submitted with each residential training or not?
11. Whether the books of accounts between BPIUs / DPCUs and SPMU are reconciled or not? If not, then reason and amount of such difference.
12. Whether the T.A. bills are entered in the T.A. register on time and along with supporting vouchers?
13. Whether CIF disbursed is properly entered in the CIF register, other details like name of groups, amount of CIF, Utilization certificate etc. or not?
14. Whether any advance is given to the staff? If yes, whether it is properly sanctioned and settled within prescribed period?
15. Whether there is proper internal control system is in existence and followed or not?
16. Whether the office is depositing TDS – GST/IT, Professional Tax and EPF regularly and within time or not?
17. Whether any fraud on any office or person has been noticed or reported during the year? If yes, the nature and amount involved.
18. Whether log book of Generator hiring and Vehicle hiring has been properly maintained or not?
19. Whether stock register is maintained? If yes, last entry of goods number/voucher page number of stock register and particulars of goods.
20. Whether 100% vouching is done? If yes, total number of vouchers, and aggregate amount involved during reporting period.
21. Whether all expenditure is made as per the budget? If not, amount of variance.
22. Whether inter-DPCUs reconciliation is made? If yes, whether there is any difference and reason therefor.
23. Whether payments to beneficiaries is made after fulfilling the requisite guidelines of LSBA or not? If not please give the details of such cases.
24. Whether any case is reported for double payment to the beneficiary or not? If yes, the same has been recovered or not?

LIST OF DISTRICT UNITS

S.No.	Names of DPCU	No. of Blocks
Assignment-1	Motihari & Sheohar	32
Assignment-2	Gaya & Arwal	29
Assignment-3	Patna & Sheikhpura	29
Assignment-4	Madhubani & Saharsa	31
Assignment-5	Nalanda & Munger	29
Assignment-6	Samastipur & Jamui	30
Assignment-7	Saran & Jehanabad	27
Assignment-8	Rohtas & Aurangabad	30
Assignment-9	Darbhangha & Madhepura	31
Assignment-10	Siwan & Lakhisarai	26
Assignment-11	Bettiah & Gopalganj	32
Assignment-12	Begusarai & Khagaria	25
Assignment-13	Sitamarhi & Kishanganj	24
Assignment-14	Muzaffarpur & Buxar	27
Assignment-15	Bhagalpur & Banka	27
Assignment-16	Katihar & Araria	25
Assignment-17	Vaishali & Bhojpur	30
Assignment-18	Purnea & Supaul	25
Assignment-19	Nawada & Kaimur	25
Assignment-20	SPMU	-