

## Draft Terms of Reference for Internal Audit of State Project Management Unit (SPMU)

### 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 05 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 44874 villages. Total project cost of SRLM has been estimated at Rs 9200 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)
  - 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 mis-utilisation 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 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.
- 6.2. The audit would cover the Internal Audit of SPMU (covering all projects/mission/Govt. department programs which are implemented by BRLPS) head office and compilation/ consolidation of District audit report on quarterly basis. **After submission of DPCU audit report, the Head office auditor will consolidate the observations made therein. The HO auditor will consolidate all the pending issues of the DPCUs. The auditor is required to visit various field office and other agencies / partners.**
- 6.3. Audit would also cover the contract with other SRLMs and such other input based consultancies or other contracts that may be entered into by the SPMU. The Auditor will submit the Annual Audit Report for the concerned SRLMs as required.
- 6.4. **The HO/SPMU Internal Auditor will have to prepare uniform format for DPCU audit report and provides general guidelines to the DPCU auditor to facilitate a uniform approach to the audit and reporting.**

## 7. Scope

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

### 7.1. Project level SPMU:

In conducting the audit, special attention should be paid to assessing 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 the relevant legal agreements’ 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 project transactions including expenditures reported via Interim unaudited Financial Reports (IUFR). To ascertain that IUFR are as per books of records of SPMU and as reported by DPCUs.
- 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 be prepared by the auditor in the first 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 to be tolerated or taken for the potential risk.

#### **Coverage of audit**

- a) 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 any needs for revision; level of compliance with 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; verification of assets and liabilities, security and effectiveness of the operation of the computerized system and,
- b) Efficiency and timeliness of the funds flow mechanism at the SPMU and DPCUs. (Through compilation and consolidation of report till district level.)
- c) Whether the accounts of the project are compiled in a timely manner and the expenditures consolidated on a monthly/quarterly basis at the SPMU level.
- d) 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.
- e) Goods, works and services financed have been procured in accordance with the SRLM/World Bank procurement guidelines, procurement manual of the society and financing agreements;
- f) Verify payment to the consultants as per agreement.
- g) All necessary supporting documents, records, and accounts of all project activities have been kept in respect of all project activities and that clear synchronizations exist between accounting records, accounts books and the periodic financial reports (internal and external i.e. Interim Financial Reports)
- h) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets.
- i) All funds received under the project have been used in accordance with the financing agreements, with due attention to economy, efficiency and effectiveness, and only for the purposes for which the financing was provided;
- j) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.
- k) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.
- l) Whether District offices maintain an updated database of audit reports received and takes follow-up action on delayed or inadequate reports, audit observations etc.
- m) Internal auditors to summarize key issues and risks from a review of DPCU audit report.
- n) Auditor will also provide variance report on training, exposure and other interventions/ convergence as per approved annual action plan and budget.

#### **7.2. Compilation and consolidation of Reports from DPCU Audit report.**

- a) Ascertaining that the audit report form DPCUs are received within stipulated period.
- b) Compilation & consolidation of Audit report from District Offices.
- c) whether the fund/ tranche released to the Community Institutions are properly recommended by the officer in BPIU and approved by the DPCU having the necessary authority, and the conditions (triggers/ graduation criteria) for tranche release (as provided in the COM for various funds) have been complied and are in line with the financing agreement, with the World Bank.
- d) Whether the DPCU has accounted the tranche release properly in the subsidiary records like CIF register/cheque issue register and is monitoring the receipt of periodic reports and utilization certificates from the SHGs/ VOs/ BLF/CLF/PG& 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.
- e) **Auditor will submit Project wise quarterly audit report and annual Report of the Society.**

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

- 8.1. All the project documents, copy 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 Project and deemed necessary by the auditor for carrying out audit.
- 8.2. The auditor would 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, guidelines, policies and procedures issued by Project Management and the relevant World Bank policies and guidelines.

- 8.3. One day workshop will be organized by the BRLPS for giving details of project. It should be attended by all the members of audit team.
- 8.4. Active support from the officials of BRLPS.

## 9. Period, Timing and Coverage of Internal Audit

- 9.1. The Internal Audit of (SPMU) head office and compilation / consolidation of District audit report on quarterly basis for the period from April 1st 2019 to March 31, 2020 i.e. the financial year 2019-20. The contract may be renewed after assessing performance of the consultant for further two year on same terms.
- 9.2. The selected firm(s) will submit audit plan in consultation with SPMU in advance.
- 9.3. The auditor should become familiar with the Project, and with the relevant policies and guidelines of the World Bank/NRLM/BTDP/LSY/SBM-G/GAP--- (including those relating to disbursements, procurement and financial management and reporting).
- 9.4. The audit will be carried out on a quarterly basis.

## 10. Reporting

- 10.1. **Quarterly Reporting:** The Auditors will provide project wise quarterly Audit report and a summary of the key findings, implications and recommendations to enable the Project Management to take timely action. The report should be discussed and agreed with the BRLPS and 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. Quarterly audit reports and annual audit report to be submitted each financial year.

The audit reports (consolidated & compiled with DPCU audit report) should be submitted within stipulated period as mentioned in general clause of TOR. The reports will be consisted as follows:-

### **The Project Management Letter to the Chief Executive Officer.**

In addition the internal auditor should provide an Executive Summary highlighting the critical issues which require the attention of the CEO of the BRLPS and the status of actions on the previous recommendations.

- 10.2. Format of the Management Letter:

The Management Letter will inter alia have the following sections

- Objectives of the audit;
- Methodology of the audit;
- The status of implementation of the financial management system;
- The status of compliance of the previous audit reports, including major audit observations pending compliance;
- The key areas of weaknesses that need improvement; and
- Recommendations for improvements.

- 10.3. **Auditing Procedures**

### **Procedure of conducting audit at SPMU**

- The auditor shall inform the SPMU before the start of Audit, attendance of auditor Key personals will be taken at the SPMU office.
- The auditor should give detailed work plan for conducting of audit at SPMU.
- The auditor should make audit program and plan for SPMU in coordination with the finance team of BRLPS.
- Feedback as necessary 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 management before furnishing of any report.
- The plan shall be finalized in consultation with management at SPMU level.
- 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 consultants work

The proposed assignment will be reviewed and monitored by a review committee on a quarterly basis and take further remedial measures on the discrepancies pointed out in internal audit constituted by BRLPS. A nodal person will be deputed to interact with the Auditor.

#### 12. KEY PERSONNEL

The list of key personnel's whose CVs and experience would be evaluated is as follows:

S.N	Key Professionals	Description of Services to be provided	Experience	No. of persons	Total Expected Mandays
1	Partner/ Audit Manager	Overall coordination, & planning, team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 10 years experience as a partner with expertise in the area of internal audit planning, execution and reporting.	01	12
2	Audit Team Leader	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices, consolidation/ compilation of DPCUs report	Qualified Chartered Accountants with at least 05 years experience in internal audit with ability to lead and team and interact with senior level Govt. officials	01	24
3	Team member	Vouching and verification of SPMU books of accounts	CA (Inter) with 03 years of experience in Accounting, audit and report writing.	03	60

#### 13. General

Time lines of conducting the audit will as follows:

Quarter	Period of Audit	Time line for District Auditors	Time line for SPMU Auditors
1 <sup>st</sup>	01/04/2019 to 30/06/2019	31/07/2019	15/08/2019
2 <sup>nd</sup>	01/07/2019 to 30/09/2019	31/10/2019	15/11/2019
3 <sup>rd</sup>	01/10/2019 to 31/12/2019	31/01/2020	15/02/2020
4 <sup>th</sup> and Annual Report	01/01/2020 to 31/03/2020	15/05/2020	31/05/2020

Final report of the audit will be submitted as per the timelines indicated above. The written acceptance of the report by the BRLPS will considered as submission of the Report.

1. Any change in the members due to unavoidable circumstances, will only be done by the Audit Firm after seeking prior no objection from the BRLPS. The change member should be of similar or higher qualification. Any change in team without no objection from BRLPS will not be eligible for attendance.
2. Payments of the auditors will be linked with the attendance of the member as per man days in the TOR of the audit team.
3. Audit report format will be provided by head office auditor to DPCU auditor, for proper consolidation and compilation of audit at Head office.

## Annexure to Main Audit Report

### Part A: Serious Observations

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

### Part B: Other Observations

*Observations that are not serious in nature, but nonetheless require the attention of the Project or the GP should be detailed in this part.*

### Part C: Executive Summary to the project and Suggestions/Recommendations

*Provide an Executive Summary of the observations in Part A and B along with suggestions/ recommendations. Only those observations that are dealt with in either Part A or Part B should be included in this section Provide specific recommendations on internal control and systemic weaknesses.*

### Part D: Matters Requiring Immediate Attention

#### 1. Matter requiring Immediate Attention

Auditor should point out the serious issue like cash defalcation, payment made without any approval and beyond the limit of devolution of powers, blank cheque signed, Release of CIF without MP and Loan committee recommendation and any other matter which auditor deemed serious in nature.

#### 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 measure.

#### 5. Compliance with Finance Agreement, Project agreement PIP COM, PAD and FM Manual/ devolution of power

Under this Para, auditor should comment on deviation from Finance Agreement, Project agreement, PIP, COM, PAD and FM Manual.

#### 6. Procurement Procedures

Under this paragraph auditor should report on procurement process which deviate from World Bank procurement guidelines.

#### 7. CIF

List of SHG and VO 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.

MISC- SHG, VO profile entries in MIS

- a) Observation of VO and SHG auditor
- b) MOU with VO
- c) MIS – data Vs. physical data of VO and SHG

#### 8. Training expenses and its variance (Physical and Financial) from Budget under CID/ 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 Participant etc. and also comment on unit cost of training and exposure.

#### 9. Computerized financial Management system (Tally)

- a) Data entries in tally 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 suggestion on proper classification of accounts, if any.
  - d) Cost Centre
  - 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 bills submitted for settlement against advance after one month.
11. Statutory deduction/ payments like TDS, VAT, EPF , Professional Tax and its compliance
12. Deduction and date of deposit with any irregularities
13. Employee benefit in the light of HR and approval from competent authorities
14. Verify and certify the IUFRR from available books of records
- Check the accuracy of quarterly IUFRR from tally data / BRS etc.
15. Tracking of financial variance – Variance showing physical and financial achievement in the light of approved action plan and budget.
16. Any other matter:
- Any other matter which auditor deems fit for notice to the management.
- **Suggestion with specific case for improvement**

**SUGGESTIVE QUESTIONNAIRE FOR SPMU (GIVE SHORT DETAILS OF DIVERGENCE):**

1. Whether Office has maintained proper records showing full particulars including quantitative details and situation of fixed assets?
2. Whether all Assets including current assets like inventory have been physically verified during the quarter?
3. Whether the cash book is properly maintained and whether it confirms with computerized system of accounting?
4. Cash balance as on the date of audit
5. Whether expenditure has been made as per the devolution of power? Details of any divergence should be mentioned.
6. Whether bank book is properly prepared and whether the balance as per the pass book confirms with the balance as per the bank book?
7. Whether proper training programs are being conducted?
8. Whether the training expenditure is as per the Budget and whether the training report is submitted with each residential training or not?
9. Whether the books of accounts reconciled between DPCUs and with the SPMU books? If no, then reason and amount of such difference.
10. Whether any advance is given to the staff? If yes, whether it is properly sanctioned and settled within 15 days?
11. Whether there is proper internal control system followed?
12. Whether the office is paying TDS, GST, Professional Tax and EPF regularly and on time?
13. Whether any fraud on or by any office or person has been noticed or reported during the year? If yes, the nature and amount involved.
14. Whether log book of Generator hiring, Computer hiring and Vehicle hiring has been properly maintained or not?
15. Whether stock register is maintained? If yes, last entry of goods number/voucher page number of stock register and particulars of goods.
16. Whether 100% vouching is done? If yes then give the total number of voucher, component wise total expenditure during the reporting period and its variance from budget.
17. Whether all expenditure is made as per the budget? If no, amount of variance.
18. Whether inter DPCUs reconciliation is made? If yes, whether there is any difference and reason for such difference.