Financial Management Manual

Integrated Coastal Zone Management

Prepared by:
Davinder S Jaaj & Co., Chartered Accountants
SCO 18, 2nd Floor, Sector 17-E
Chandigarh – 160 017

July 2009

TABLE OF CONTENTS

List of Acronyms 5

CHAPTER 1: INTRODUCTION 7

1.1 Introduction 7

1.2 Project Background 7

1.3 Program Components 8

1.4 Objectives of Financial Management Manual 9

1.5 Coverage of the Manual 10

1.6 Administration of the Manual 10

CHAPTER 2: INSTITUTIONAL ARRANGEMENT 12

2.1 Project Institutional Structure 12

2.2 Pilot Executing Agencies 17

2.3 Memorandum of Understanding 18

CHAPTER 3: PLANNING & BUDGETING SYSTEM 19

3.1 Introduction 19

3.2 Overall Work Plan (OWP) 20

3.3 Annual Work Plan (AWP) cum Budget 20

3.4 Preparation of Annual Work Plan cum Budget 21

3.5 Budget Calendar 23

3.6 Budget / AWP Approval Process 24

3.7 Budget Period and Revision of Budgets 25

CHAPTER 4: FUND FLOW MECHANISM 28

4.1 Major Institutions Providing Funds 28

4.2 Fund Flow 28

CHAPTER 5: FINANCIAL AND ACCOUNTING POLICIES 35
5.1 Method of Accounting 35
5.2 Treatment for Advance Payment 35
5.3 Fixed Assets and Depreciation 36
5.4 Valuation of Stocks 36
5.5 Expenditure which would be charged to the Project 36
5.6 Contractors & Suppliers Payments 37
5.7 Expenditure to be Charged under Different Disbursement Categories 37
CHAPTER 6: BOOK-KEEPING & ACCOUNTING 40
6.1 Overview of the Existing System 40
6.2 Accounting Centres Under the Project 40
6.3 Use of Accounting Software 42
6.4 Banking 42
6.5 Chart of Accounts 44
6.6 Books of Accounts 44
6.7 Consolidation of Accounts 50
CHAPTER 7: FINANCIAL REPORTING, CONSOLIDATION & ANNUAL ACTIVITIES ... 59
7.1 Objectives 59
7.2 Types of Reports 59
7.3 Preparation of MIS 61
CHAPTER 8: AUDIT ARRANGEMENTS 62
8.1 Background 62
8.2 Objectives 63
8.3 Conduct and Coverage of Audit 63
8.4 Audit Committee 64
8.5 Terms of Reference for Auditors 65
8.6 Tenure of Auditor 65

LIST OF ACRONYMS

AC	Accounting Centre
AWP	Annual Work Plan cum Budget
BISAG	Bhaskaracharya Institute for Space Applications and Geo-Informatics
COA	Chart of Accounts
CAAA	Controller of Aid, Account and Audit
CAG	Comptroller and Auditor General of India
CP	Commercial Practices
CQ	Selection Based on Consultants Qualification
CDA	Chilka Development Authority
DoFE	Department of Forests & Environment
DEA	Department of Economic Affairs
EE	Executive Engineer
EC	Empowered committee
FMM	Financial Management Manual
GOI	Government of India
GPCB	Gujarat Pollution Control Board
HOD	Head of Department
JE	Junior Engineer
IUFR	Internal Unaudited Financial Reports
ICZM	Integrated coastal Zone Management
JMC	Jamnagar Municipal Corporation
MoU	Memorandum of Undertaking
MoEF	Ministry of Environment & Forestry
NGO	Non-Government Organization
NPMU	National Project Monitoring Unit
OSDMA	Orissa State Disaster Management Authority
OWP	Overall Work Plan
PEA	Project Executing Agency

PFM	Project Financial Management
SPMU	State Project Monitoring Unit
TOR	Terms of Reference
ZSI	Zoological Survey of India

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

1.1.1 The Project **Financial Management Manual (FMM)** lays down the Financial Management Systems (FMS) to be followed by the Project Executing Agencies (PEA) under Integrated Coastal Zone Management Project (ICZM).

1.2 PROJECT BACKGROUND

1.2.1 The World Bank is providing assistance to Integrated Coastal Zone Management (ICZM) project being implemented by the Government of India (GoI) and the State Governments of Gujarat, Orissa and West Bengal.

1.2.2 India has a coastline of about 7,500 km of which the mainland accounts for 5,400 km, Lakshadweep coasts extend to 132 km and Andaman & Nicobar Islands have a coastline of about 1,900 km (Prof. M. S. Swaminathan Committee Report, 2005). Coastal environment of India plays a vital role in nation's economy by virtue of the resources, productive habitats and rich biodiversity. The coastline is endowed with a wide range of coastal ecosystems like mangroves, coral reefs, sea grasses, salt marshes, sand dunes, estuaries, lagoons and natural habitats etc. Significant activities in the coastal areas include fishing, ports & harbors, aquaculture, agriculture, tourism, oil and mineral exploitation etc. The coastal activities contribute significantly to the National GDP.

The coastal areas provide for significant economic developmental activities on one hand but it also is an area where the natural hazards are encountered. The various anthropogenic activities coupled with natural calamities leads to environmental degradation such as coastline erosion/accretion, floods, salt water intrusion, ground water depletion, pollution, loss of rich biodiversity, alteration of habitat etc as consequences of the various coastal activities. Further, the people living along the coastal areas are prone to natural hazards such as cyclone, storm surges, tides, tsunami etc., in coastal areas.

To meet the economic aspiration of the local communities living in the coastal stretches and also the developmental aspects of the developing country like India there is a need to manage the coastal resources in a sustainable manner. One of the approaches for managing the coastal resources and promote development in a sustainable manner is through ICZM which is practiced World-wide. The ICZM approach is based on scientific principles taking into account the socio-economic issues of the coastal areas. The coastal areas are assuming greater importance in recent years, owing to increasing human population, urbanization and accelerated developmental activities.

1.3 PROGRAM COMPONENTS

1.3.1 **Component 1: National ICZM Capacity Building** will include [i] mapping, delineation and demarcation of the hazard lines all along the mainland coast of India; [ii] mapping, delineation and demarcation, as required, of the environmentally sensitive areas (ESAs), also all along the mainland coast of India; [iii] capacity building of the MoEF as the secretariat of the National Coastal Zone Management Authority (NCZMA), and nation-wide training program for Integrated Coastal Zone Management; [iv] setting up and operationalization of the new National Institute for Sustainable Coastal Zone Management.

1.3.2 **Component 2: Piloting ICZM approaches in Gujarat** will include [i] capacity building of the state level agencies and institutions, including preparation of ICZM plan for the coastal sediment cell which includes the Gulf of Kachchh, and [ii] priority investments. The capacity-building sub-component in Gujarat will include capacity building of the Forest and Environment Department (which is the secretariat for the State Coastal Zone Management Authority), Gujarat State Pollution Control Board (for monitoring and enforcing pollution control in the coastal areas), Gujarat Environment and Ecology Research Foundation (for developing relevant research capacity in coastal ecology, and for developing suitable techniques for transplantation regeneration of coral reefs), Bhaskaracharya Institute of Space Applications and Geo-Informatics (for preparing GIS-enabled mapping and decision support tools for the coastal areas), as well as the preparation of the ICZM Plan for the Gulf of Kachchh.

The priority investments in Gujarat, all located in the gulf of Kachchh, will include the following:

- *Conservation and protection of the coastal resources*
- *Environment and pollution management –*
- *Livelihood security of the coastal communities*

1.3.3 **Component 3: Piloting ICZM approaches in Orissa** will include [i] capacity building of the state level agencies and institutions, including preparation of ICZM plan for the coastal sediment cells which include the stretches of Paradip-Dhamra and Gopalpur-Chilika, including a regional coastal process study, and [ii] priority investments. Other than the above-mentioned ICZM Plan, the capacity-building sub-component in Orissa will include capacity building of the Forest and Environment Department (which is the secretariat for the State Coastal Zone

Management Authority), Pollution Control Board (for monitoring and enforcing pollution control in the coastal areas), Chilika Development Authority (for species and wetland research).

The priority investments in Orissa are concentrated in the two reaches of (i) Gopalpur-Chilika and (ii) Paradip-Dhamra - and will include the following:

- *Conservation and protection of the coastal resources*
- *Environment and pollution management –*
- *Livelihood security of the coastal communities*

1.3.4 **Component 4: Piloting ICZM approaches in West Bengal** will include [i] capacity building of the state level agencies and institutions, including preparation of ICZM plan for the coastal sediment cells which include the coastal areas of West Bengal, and [iii] priority investments. Other than the ICZM Plan for the Coast of West Bengal, the capacity-building sub-component will include capacity building of the Forest and Environment Department (which is the secretariat for the State Coastal Zone Management Authority), West Bengal State Biodiversity Board (for research, monitoring and protection and/or conservation of the biodiversity resources), the Kolkata University (for research and inventory of invertebrates), and the Institute of Environmental Science and Wetland Research (for geomorphologic and wetland research, and for supporting completion of a Sundarban resources interpretation centre through an NGO).

The priority investments in West Bengal will take place in two limited areas – (i) Digha-Shankarpur, and (ii) Sagar Island in the Sundarban – and will include the following:

- *Conservation and protection of the coastal resources*
- *Environment and pollution management –*
- *Livelihood security of the coastal communities*

1.4 OBJECTIVES OF FINANCIAL MANAGEMENT MANUAL

The Financial Management Manual (FMM) has been designed with a view to meet the requirements/expectations of the Project. The main objectives of FMM shall primarily be:

- To achieve better Project Management by providing timely information on financial aspects and on key performance indicators to the Program management
- To meet the financial reporting requirements of various stakeholders
- To keep track of funds utilization for each PEA.
- To provide reasonable assurance that the resources/funds are being used effectively and efficiently for their intended purpose.
- To ensure that all project related activities are reflected in the Project Financial Statements and the same be closely aligned with the Project components as per the Overall Work Program.
- To improve creditability and control over data integrity through effective internal control arrangement.
- To enhance transparency and promote accountability at the PEA level.

To achieve this objective the manual provides for the accounting policies to be followed by the PEA. It also provides for a detailed chart of accounts for the PEA which would assist in monitoring of Expenses with those given in the OWP.

1.5 COVERAGE OF THE MANUAL

This manual covers the following aspects of the project:

- Fund Flow process
- Planning and budgeting system
- Financial and accounting policies
- Accounting system including internal controls
- Financial Reporting
- Auditing arrangements

1.6 ADMINISTRATION OF THE MANUAL

This Manual shall be administered in the manner given below:

- Principle Secretary, Ministry of Environment and Forest (MoEF), GoI will authorize the Manual.

- The Manual is a living document and may be amended by the Principal Secretary, Ministry of Environment and Forest (MoEF) subject to prior concurrence of the Bank. All participants in the Project are encouraged to share their learning and experiences of the project implementation so as to improve the proposed arrangements made to attain the project objectives.

- All amendments made to the Manual shall –

  - Be circulated to all the SPMU/IA by NPMU. The circular/notification shall clearly state the paragraph(s) and line(s) to be replaced. All such circulars/notifications shall be serially numbered.
  - Mention the date from which the change shall be effective
  - Be annexed to the manual with a cross reference at the appropriate places in the manual

This manual shall apply to all the Project Executing Agencies of the project.

CHAPTER 2: INSTITUTIONAL ARRANGEMENT

2.1 PROJECT INSTITUTIONAL STRUCTURE

2.1.1 GoI's MoEF will have the lead responsibility for project implementation and ensuring that the project development objectives are met. The Departments of Forests & Environment (DoFE) of each of the three participating states will be the key partners of MoEF in project implementation. Each of these four main partners have set up special purpose vehicles in the form of registered societies (National and State level PMUs), to exclusively lead and coordinate project activities on a full time basis and directly implement some of the project sub components. The main division of responsibility amongst these four partners and the National and State level PMUs would be as below.

2.1.2 The project's institutions will mainly operate at three levels

(a) National Level : MoEF with National level PMU

(b) State Level : DoFE with State level PMUs in each of the three states, and

(c) Pilot Investments in 3 States: A range of government departments/ specialized agencies

2.1.3 The MoEF and the state DoFEs have the sole mandate for coastal zone management respectively at the national and state levels. They have the expertise, experience and demonstrated capacity in coastal zone management and have been the obvious choice to lead project implementation. Similarly the pilot execution agencies have been selected by MOEF and the State DOFEs in view of their singular expertise in implementing respective coastal zone conservation and development interventions.

2.1.4 The proposed institutional arrangements, roles and responsibilities of various actors and their organizational linkages will be as follows (charts to be inserted later).

2.1.5 At the **National Level: MOEF** headed by the Secretary will be primarily responsible for implementing the project. It is setting set up a special purpose NPMU to exclusively manage the project and is also in the process of establishing an Empowered Committee (EC) to facilitate speedy implementation of the project. The EC will be headed by the Additional Secretary, MoEF and the Project Director of the NPMU will be its Member

Secretary. The other members of the Empowered Committee will include representatives of select National and State level departments, agencies and experts in the CZM. EC's main functions would be: providing policy and implementation framework, approval of AAPs and budgets, approval to high cost consultancy and works awards and provide an oversight on the project's implementation performance and outcomes. The details of EC's mandate, composition, functions and powers are being included in the PIP. EC will also seek guidance and support of the National ICZM Authority from time to time as needed.

Table 3: Institutional Responsibilities for Implementation of the Project

Responsible Institution	Main Function
MoEF, GoI	Providing National Policy and implementation framework, Approval of Annual Plans and budget, and Implementation oversight
NPMU under MoEF, GoI	Project Implementation leadership and accountability to achieving PDOs, Implementation of the National Component
DoFE in each of the three States- Gujarat, Orissa and West Bengal	Providing State Policy and implementation framework, Approval of state level Annual Plans and budget, and Implementation oversight
SPMUs under the respective DoFEs of Gujarat, Orissa and West Bengal	State Level Project Implementation leadership and accountability to achieving PDOs, Implementation of the State level components

2.1.6 National Project Management Unit (NPMU): NPMU is being set up within the MoEF under the Secretary with an exclusive mandate for providing countrywide leadership, collaboration and management of the ICZM project. NPMU will be responsible for ensuring that the PDOs are fully achieved in a timely manner. Its main functions will be: overall project planning and management, directly implementing the national component, providing guidance, support and approvals as needed to the three SPMUs including monitoring performance of the State components, management of project funds including timely release of advance project funds to the States and seeking reimbursements from the Bank. Its functions will also include: capacity building of all Project partners, managing country wide IEC campaigns and stakeholder participation, ensuring appropriate procurement practices and high quality of

engineering designs and construction, ensuring compliance with the project's safeguard policies, implementing enhanced Governance and Accountability Action Plan, and regular monitoring and evaluation of project performance. It will be responsible for liaising with the World Bank and for sending quarterly progress reports to EC of the MOEF and the Bank. It will also responsible for regular review of strategies and implementation arrangements in the context of implementation experiences and for ensuring course corrections as needed.

2.1.7 NPMU is being set up as a registered society and its MOA and bylaws, mandate, composition, functions, powers and operational procedures have been agreed and will be included in the PIP. The NPMU will be headed by a Project Director, an Indian Administrative Service officer not below the rank of a Joint Secretary of GoI and will have about 15 key professional staff. The staff will be multi-disciplinary including specialists in Environment, Ecology, Ocean Engineering, Finance, Operations, HRD, M&E, Procurement and Communications disciplines. The professional staff will be drafted from within the National/ State government offices/ agencies, or recruited from private sector on contract basis. Project Director and some of the key staff members will be in position in April 2009, well before appraisal of the project, and a few additional positions will be filled prior to negotiations. In addition, NPMU will recruit private sector consultants/ experts (individuals, institutions or firms) from time to time as necessary to strengthen its project management capacity.

2.1.8 At the **State Level:** The Departments of Forests and Environment (DoFEs) headed by the Principal Secretary in each state would be primarily responsible for implementing the respective state components of the project. The three state are setting up special purpose SPMUs as registered societies (or have nominated existing such societies) to manage the project in their states and are also establishing Empowered Committees to facilitate speedy implementation of the project. These ECs will be headed by the Secretaries of the DoFE and the Project Directors of the SPMUs are their Member Secretaries. The other members of the Empowered Committees include representatives of select National and State level departments, agencies and experts in the CZM. EC's main functions would be: providing state level ICZM policy and implementation framework, approval of AAPs and budgets, ensure inter-departmental coordination and partnership, approval to high cost consultancy and works contract awards and provide an oversight on the project's implementation performance and outcomes. The details of EC's mandate, composition, functions and powers are included in the respective state

PIPs. ECs will also seek guidance and support of the State ICZM Authorities from time to time as needed.

2.1.9 State Project Management Units (SPMUs): Respective State level SPMUs would be state level counterparts of the NPMU and would have similar responsibilities for the respective state components. SPMUs are being set up in the three States within the respective DOFE under the Secretary with an exclusive mandate for providing statewide leadership, collaboration and management of the ICZM project and would be accountable to NPMU for achieving PDOs. They will adopt various project implementation guidelines issued by NPMU and report to NPMU from time to time on project implementation performance and achievements. SPMUs will send quarterly progress reports to EC of the DOFE, NPMU and the Bank.

2.1.10 SPMU's main functions will include overall project planning and management, directly implementing some of the agreed sub-components/ pilots, providing guidance, support and approvals as needed to the pilot executing agencies (PEAs), and monitoring their performance, management of project funds including timely release of advance project funds to the PEAs, and ensuring that agreed safeguard and fiduciary policies and procedures are fully complied with by the PEAs. Its functions will also include : capacity building of all project partners, managing state level IEC campaigns and ensuring stakeholder participation, ensuring appropriate procurement practices and high quality of engineering designs and construction, implementing enhanced Governance Action Plan (see Annex 11), and regular monitoring and evaluation of project performance in the State. SPMUs will regularly review of strategies and implementation arrangements in the context of implementation experiences and ensure course corrections as needed in consultation with the NPMU.

2.1.11 SPMUs are being set up as a registered societies and their MOA, bylaws, mandate, composition, functions, powers and operational procedures will be agreed and included in the respective state PIPs. Gujarat and West Bengal have mandated exiting state agencies to perform the function of the SPMU whereas Orissa has set up an entirely new SPMU for the project. The SPMUs are headed by a State Project Director, an officer not below the rank of an Additional Secretary of the State and will each have about 10 full time key professional staff. Where exclusive Project Directors have not been provided, an additional state project director has been included to lead the SPMU on a full time basis. The staff will be multi-disciplinary including specialists in Environment, Ecology, Ocean engineering, finance, operations, HRD, M&E, procurement and communications disciplines. Most professional staff will be drafted from within the National/ State

government offices/ agencies. The rest would be filled from private sector on contract basis. The State Project Director and some of the key staff members will be in position before appraisal of the project, and a few additional positions will be filled prior to negotiations. In addition, SPMUs will recruit private sector consultants/ experts (individuals, institutions or firms) from time to time as necessary to strengthen their project management capacity.

2.1.12 Pilot Executing Agencies (PEAs): Each of the State DOFEs have entrusted the work of implementing select pilot investments to identified specialized agencies in their states. The Secretaries of these departments will be responsible for implementing the respective pilot investments, ensuring acceptable implementation standards and for achieving the output and outcome targets of the pilot investments. They have identified exclusive project teams to be responsible for implementing the agreed pilot projects adopting the Project Guidelines contained in Project Agreements signed with the Bank, the State Project Reports and PIPs. The main function of these project teams would be: preparing DPRs as per nationally accepted technical standards and specifications, seeking appropriate technical and administrative approvals from within their own departments and SPMU, construction/ installation of facilities, managing project funds if required, related capacity building, ensuring compliance with project's safeguard and fiduciary policies, standards and procedures, and supporting concurrent M&E. These Project Teams would report to the respective SPMUs in regard to implementation progress and performance of the pilots and provide accounting and audit and other progress reports as required by SPMU. The sharing of roles and responsibilities – including administrative and fiduciary arrangements – between the SPMUs and the PIAs have been agreed and will be documented in the signed bilateral MOUs.

2.1.13 The role of PEAs would be very important to develop institutional models for post-project and eventual institutionalization of the intended integrated approach to CZM across all coastal States in India. However, to ensure that this pilot project is efficiently and quickly implemented, procurement of works, goods and consultancies, the related financial aspects and an independent M&E mechanisms would be largely managed by the SPMUs, leaving the only the implementation management of priority investment to PEAs- where their core competency will only be utilized. In view of the otherwise complex institutional change agenda of the project, this approach will ensure greater fiduciary assurance in project implementation.

2.2 PILOT EXECUTING AGENCIES

The Project shall be implemented by the following Executing Agencies:

(a) State Government of Gujarat (SPMU)

(i) BISAG

(ii) Gujarat Ecology Commission

(iii) GEER Foundation

(iv) Jamnagar Municipal Corporation

(v) Gujarat Pollution Control Board

(vi) Marine National Park

(b) State Government of Orissa (SPMU)

(i) Water Resources Department

(ii) State Pollution Control Board

(iii) Department of Revenue (OSDMA)

(iv) Department of Forest & Environment (Wild Life)

(v) Department of Fisheries & Animal Husbandry

(vi) Department of Tourism

- Orissa Tourism Development Corporation Ltd. (OTDC)

(vii) Department of Culture

- Superintendent, Orissa State Archaeology, Bhubaneswar

(viii) Department of Industries

(ix) CDA

(x) Paradeep Municipality

- Executive Officer, Paradeep Municipality, District Jagatsinghpur

(c) State Government of West Bengal (SPMU)

(i) Digha Shankarpur Development Authority

(ii) Forest Department, Govt of West Bengal

(iii) Institute of Environmental Studies and Wetland Management

(iv) Public Health Engineering Directorate (WB)

(v) Sunderban Infrastructure Development Corporation Ltd.

(vi) University of Calcutta

(vii) West Bengal Fisheries Corporation Ltd.

(viii) West Bengal State Electricity Distribution Company Ltd.

(ix) Zoological Survey of India

2.3 MEMORANDUM OF UNDERSTANDING

2.3.1 A Memorandum of Understanding will be signed by the NPMU with each of the Project Executing Agencies under it.

2.3.2 A Memorandum of Understanding will be signed by the SPMU with each of the Project Executing Agencies under it.

CHAPTER 3: PLANNING & BUDGETING SYSTEM

3.1 INTRODUCTION

3.1.1 This chapter sets out the framework for the proposed budgeting system including the various aspects of budgeting process. This system indeed, is an inevitable tool in the hands of the Management to control costs & monitor performance in the implementation of various activities of the Project.

PROPOSED BUDGETING SYSTEM

3.1.2 The main objective of an efficient budgeting system is to facilitate budgetary control, i.e., monitoring of performance at regular intervals and the accountability for variance. The proposed budgeting system has been developed with this end objective. The main objectives of the proposed budgeting system are as follows:

(a) To ensure participation at all levels in the budgeting process from the SPMU-level to the PEA-level.

(b) To provide a basis for periodical monitoring of the performance of Project Executing Agency.

(c) To meet World Bank's requirement of quarterly forecasting of Project funds.

(d) To facilitate fixation of accountability for budget variances.

3.1.3 The budget preparation and allocation process shall be done manually. (However, computers may be used to facilitate the process of preparation of budget estimates, consolidation of the proposed budget, allocations to the PEAs).

3.1.4 On approval of the annual budget of the State Government, the approved budget figures shall be entered into the IUFR to facilitate budgetary control.

Features of the proposed budgeting system

3.1.5 The salient features for the proposed budgeting system are as follows:

(1) Realistic budgets by doing a comprehensive analysis of actuals vs budgets.

(2) Regular comparison of actuals with budgets by breaking down the annual work plan into sub-periods (quarters).

(3) Analysis of financial and physical performance to obtain a better understanding of the budget variances.

(4) Prompt action and clear responsibility for deviation from budgets by ensuring authorization of budgetary deviations at the time of expenditure incurred itself.

(5) Integrating budgeting and accounting system by incorporating the work plan components and activities in the chart of accounts of the proposed financial accounting system.

3.1.6 A budget centre is an office which shall be responsible for budget preparation and shall be accountable and responsible for budgetary control system. The proposed planning and budgeting under the program shall be done at the following offices —

At National level:

(i) National Project Monitoring Unit (NPMU)

(ii) Project Executing Agencies (PEAs)

At State level:

(ii) State Project Monitoring Unit (SPMU)

(iii) Project Executing Agencies (PEAs)

3.1.7 Each of the above budgeting centers shall be responsible for budget preparation and shall be accountable / responsible for budgetary control system.

3.2 OVERALL WORK PLAN (OWP)

3.2.1 The Overall Work Plan (OWP), which has been agreed by GoI & State Governments with the World Bank, contains State-wise, PEA-wise, year-wise breakup of physical targets, unit cost for each activity, financial targets for each of the activity under each of the component and the details of the components relevant for the project. The OWP shall form the basis of year-wise budget preparation for the year.

3.3 ANNUAL WORK PLAN (AWP) CUM BUDGET

3.3.1 Based on the OWP, the AWP shall be prepared. The main features of AWP are as under:

(1) Preparation of AWP (both for physical and financial targets) along with implementation /procurement schedule enabling breakdown of budgets into quarters.

(2) AWP to incorporate revisions based on variance analysis of the previous year.

(3) AWP shall be prepared taking into consideration the funding proportion of the World Bank / GoI / State Governments and beneficiary contribution for the budget year.

3.4 PREPARATION OF ANNUAL WORK PLAN CUM BUDGET

At NPMU

3.4.1 In the month of September of the preceding year, the NPMU shall, on the basis of OWP (year-wise), prepare physical and financial targets for each activity. Thereafter, these targets shall be disseminated to its PEAs along with each SPMU. The basic objective of this break-up of physical and financial targets is to provide an overall framework within which, each PEA & SPMU shall prepare their respective budgets and procurement schedule for the budget year.

3.4.2 On the basis of these physical and financial targets given by NPMU, each PEA under NPMU shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Work Plan is enclosed vide **Annexure 1a.**

3.4.3 While preparing the AWP, the PEAs under NPMU shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.

3.4.4 The PEA shall analyze the deviations, if any, with the physical and financial targets as communicated by the NPMU and specify reasons thereof in writing for approval.

3.4.5 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.

3.4.6 On receipt of AWP from the PEAs, the NPMU shall compile the AWP for the activities to be undertaken by it, i.e., Component-I.

3.4.7 Each SPMU shall also submit its approved AWP in the format enclosed vide **Annexure 1b** after following the process described in subsequent paragraph.

3.4.8 The NPMU shall compile the budgets submitted by the SPMUs with its own AWP to arrive at National-level AWP for ICZM project. The format of consolidated AWP is given vide **Annexure 1c.**

3.4.9 The Consolidated Annual Work plan at National-level shall be prepared taking into consideration the funding proportion of the World Bank and the State Governments for the budget year.

3.4.10 This Consolidated AWP-cum-Budget at National-level will be submitted to the MoEF for its approval.

At SPMU

3.4.11 The SPMU shall also, on the basis of targets received from NPMU, prepare PEA-wise physical and financial targets for each activity. The basic objective of this break-up of physical and financial targets is to provide an overall framework within which, each PEA shall prepare their respective budgets and procurement schedule for the budget year.

3.4.12 On the basis of these physical and financial targets given by the SPMU to each of its PEAs, each PEA shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Work Plan is enclosed vide **Annexure 1a.**

3.4.13 While preparing the AWP, the PEA shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.

3.4.14 The PEAs shall analyze the deviations, if any, with the physical and financial targets as communicated by the SPMU and specify reasons thereof in writing for approval.

3.4.15 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.

3.4.16 Thereafter, the SPMU shall compile the AWP submitted by the PEAs along with its own physical and financial targets to arrive at States Consolidated AWP for ICZM project. The format of consolidated AWP is given vide **Annexure 1b.**

3.4.17 The Consolidated AWP of the State shall be prepared taking into consideration the funding proportion of the World Bank and the state Government for the budget year.

3.4.18 This Consolidated AWP at State-level will be submitted to the NPMU for its approval and further consolidation at national-level.

At PEA

3.4.19 On the basis of physical and financial targets given by NPMU/SPMU, each PEA shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Annual Work Plan is enclosed vide **Annexure 1a.**

3.4.20 While preparing the AWP, the PEAs shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.

3.4.21 The PEA shall analyze the deviations, if any, with the physical and financial targets as communicated by the NPMU/SPMU and specify reasons thereof in writing for approval.

3.4.22 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.

3.5 BUDGET CALENDAR

3.5.1 In order that the exhaustive budgeting exercise gets completed within the specified time frame, a budgeting calendar has been prepared, which gives the time schedule for the preparation of the budget in each of the agencies. The budget calendar is detailed as per Table-1 below:

Table-1

S.No.	Activity	Responsible Agency	Completion Date
1	Dissemination of Annual Targets to each SPMU as per the OWP	NPMU	1st September of Previous year
2	Dissemination of Annual Targets to each PEA under NPMU as per the OWP	NPMU	1st September of Previous year
3	Dissemination of Annual Targets to each PEA under SPMU as per the targets received from NPMU	SPMU	15th September of Previous year
4	Preparation of AWP by PEAs and submission to SPMU/NPMU	PEAs	15th Oct. of Previous year

5	Consolidation of State AWP by SPMU and submission to State Steering Committee for Approval	SPMU	31st Oct of Previous year
6	Approval of Consolidated AWP by State Steering Committee	Steering Committee	15th Nov of previous year
7	Submission of the approved AWP to NPMU for their approval	SPMU	20th Nov of Previous year
8	Consolidation of AWP for the project	NPMU	30th Nov of Previous year
9	Submission of Consolidated AWP for the project to MoEF , GOI for approval	NPMU	5th Dec. of Previous year
10	Approval of the Consolidated AWP for the project by MoEF	MoEF , GOI	15th Dec of Previous year
11	Submission of the AWP to the World Bank and respective SPMUs	NPMU	20th Dec of Previous year
12	Submission of the approved AWP to the Finance Dept GOI for inclusion in the GOI Budget	NPMU	31st Dec of previous year
13	Submission of the approved AWP to the Finance Dept of State Governments for inclusion in the State Budget	SPMU	31st Dec of previous year

3.6 BUDGET / AWP APPROVAL PROCESS

Budget Committee and Budget Approval

3.6.1 State SPMU shall submit its AWP to the State Steering Committee set up by the respective State Governments.

3.6.2 The State Steering Committee shall review the AWP proposed by SPMU keeping in view the long term perspective plans of the ICZM Project.

3.6.3 After the AWP is approved by the Committee, it shall be forwarded to NPMU for their approval and consolidation for the project as a whole.

3.6.4 The NPMU shall submit the consolidated AWP to the MoEF, GoI for approval.

Allocation of Approved Budget

3.6.5 After the AWP has been approved by the GoI, the approved AWP shall be submitted to the Finance Dept of GoI for inclusion in the Central Budget.

3.6.6 After the AWP has been approved by the respective State Steering Committees & further by the GoI, the approved AWP shall be submitted to the Finance Dept of State Governments for inclusion in the State Budget.

3.6.7 The Budget Allocation by the State Government to SPMU shall be the State Government share in the ICZM project and not the entire ICZM expenditure for that year. The Budget Allocation by the Central Government to NPMU shall be the GoI share in the ICZM project.

3.7 BUDGET PERIOD AND REVISION OF BUDGETS

3.7.1 Budget period shall be the same as the financial year followed by Project Executing Agencies, i.e., from April to March of each year.

3.7.2 Budgets shall be prepared for the budget year and then disseminated over quarterly budgets. This would enable periodical performance review through quarterly variance analysis. The budgets will be broken down into quarterly budgets based on the detailed Annual Work Plan prepared at PEA-level.

3.7.3 Normally, budgets should be applicable for a full year. As the budgeting process involves forecasting on the basis of certain assumptions the possible variations should be planned at the time of preparation of the budgets. Any significant variations from the original assumptions would necessitate revision of budgets within the budget year itself.

BUDGET HEAD (STATE BUDGET)

3.7.4 Based on agreement with the Finance Dept of the State Government, the detailed Annual Work Plan will be summarized by Project Head ICZM and submitted to the Finance Dept for facilitation budgeting in the State Budget together with expected inflows from the World Bank and GoI.

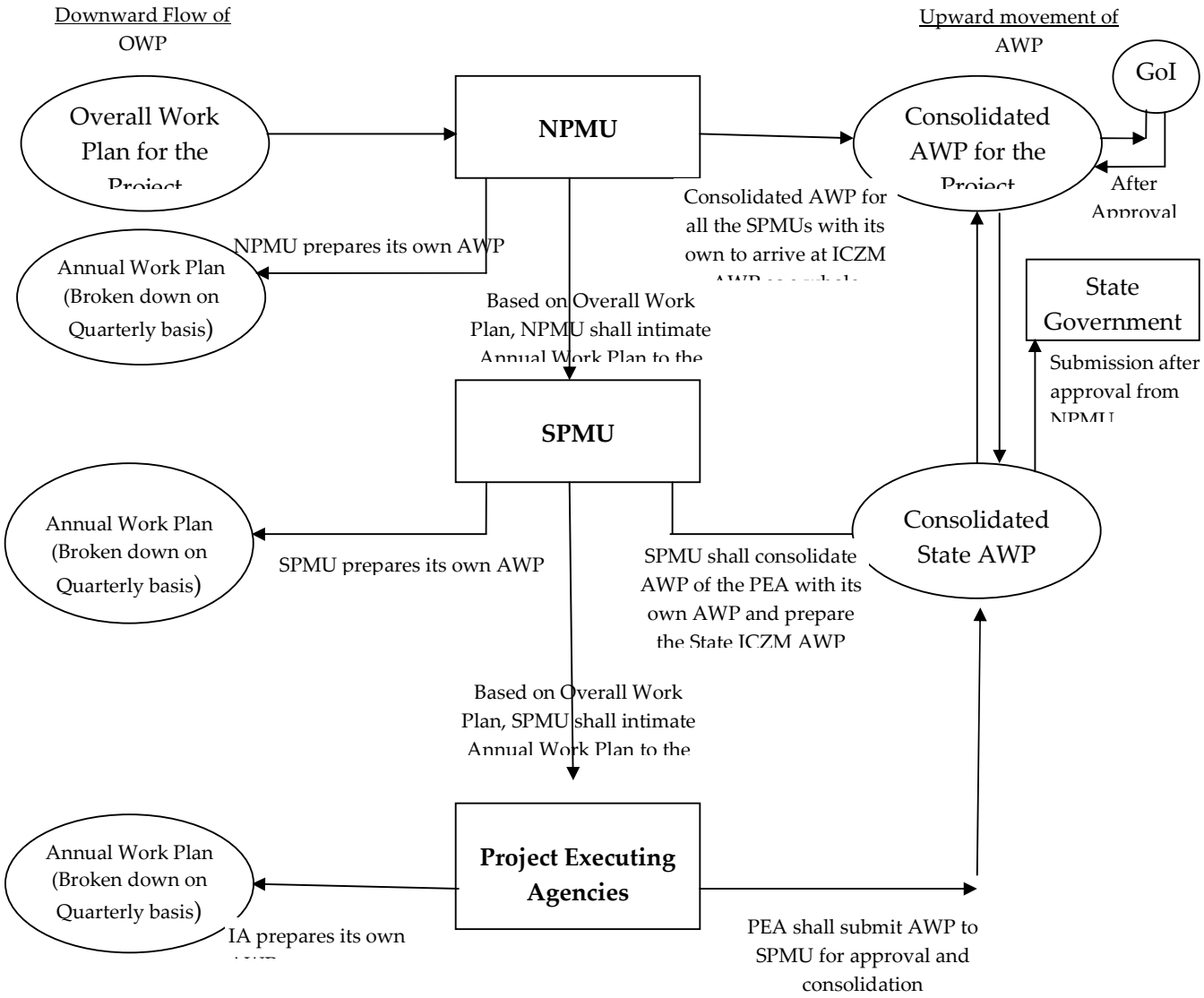
Based on this, the program would be budgeted under the program budget head for all the components and the SPMU will have the flexibility to re-allocate budgets within the components.

Budget Preparation Process – A FLOW CHART

3.7.5 An overview of the budget process is provided in Exhibit 1.

Exhibit 1

BUDGETING PROCESS



CHAPTER 4: FUND FLOW MECHANISM

4.1 MAJOR INSTITUTIONS PROVIDING FUNDS

This chapter gives the process of flow of funds from the Project funding bodies to its Executing Agencies.

4.1.1 **Funding Agencies:**

The Project will be funded by the following agencies:

(i) World Bank

(ii) State Government (GoG, GoO & GoWb)

(iii) Government of India

4.2 FUND FLOW

4.2.1 The Flow **of Funds related to the Project is divided into following broad heads:**

(i) Funding by Government of India

(ii) Funding by the State Governments.

(iii) Transfer of funds from NPMU to SPMU.

(iv) Transfer of funds from the SPMUs to various Executing Agencies.

(v) Funding from World Bank.

4.2.2 **FUNDING BY THE GOVERNMENT OF INDIA**

4.2.2.1 The Government of India (MoEF) shall provide funds to the NPMU for project implementation. Accordingly, GoI shall make budgetary allocation for NPMU in its annual budget and the NPMU shall incur expenditure to the extent of its budgetary allocation.

4.2.2.2 MoEF will provide project funds to the NPMU in the form of grants in aid. These funds will be disbursed to an exclusive bank account maintained in a Nationalized / Schedule Bank by NPMU for the purpose of project implementation. MoEF will release annual funds to the NPMU accordance with the project cost tables and procurement plan.

4.2.2.3 This Bank account will be maintained by Project Director, NPMU and all financial transactions will be transacted from this Bank account. The Project

Director, NPMU will be duly authorized to draw and disburse the funds from the bank account.

4.2.2.4 The Project Director will be responsible for disbursing funds to the state level project management units, consultants to the projects, institutes and individuals involved in project implementation and procurement agencies.

4.2.2.5 The Project Director will be authorized to disburse funds as per the approved cost table of the project. Any deviation will require approval of the executive committee (Board of Governors).

Conditions for Release of Funds by MoEF

Condition	Terms & Conditions
1	To be released in 2 instalments— (a) 1st instalment to be released being equal to initial 6 months' fund requirement as per AWP; (b) 2nd instalment to be released on utilization of 80% of 1st instalment and submission of Utilization Certificate to that affect.

4.2.3 **FUNDING BY THE STATE GOVERNMENT**

4.2.3.1 The State government shall provide funds to the respective state PMU's for the execution of the project. The funding by the State government to the project would be made through allocation of funds in its annual budget under the account head of ICZM (as per state government's Chart of Account). Hence, the budgetary allocation would indicate the funds with the project for that year. The state government shall physically transfer the funds to the SPMU.

4.2.3.2 Based on the approved Budget and AWP, funds required for the first quarter will be released by the Finance Department. This will be on a lumpsum basis and not broken down into components thereby giving SPMU the flexibility to utilize the funds as per its requirement.

4.2.3.3 The SPMU shall keep the funds in the bank account opened for the project. The funds for the subsequent quarter will be released based on the projected requirement adjusted for actual expenditure/disbursement in the previous quarter.

4.2.4 **TRANSFER OF FUNDS FROM NPMU TO SPMU**

4.2.4.1 As and when the funds are available to NPMU, the same shall be made available to the states as per there AWP. The amount of funds to be disbursed by the State Government will be limited to its budgetary allocation for the Project.

4.2.4.2 The NPMU will directly transfer the GoI share to the State in the bank accounts of SPMUs.

Conditions for Release of Funds to the SPMU by NPMU

Condition	Terms & Conditions
1	To be released in 2 installments— (a) 1st installment to be released immediately on receipt of 1st installment by MoEF to NPMU; (b) 2nd installment to be released on utilization of 80% of 1st installment and submission of Utilization Certificate to that affect.
2	NPMU shall release funds to SPMU only after the State share in the project has been released to SPMU as per AWP
3	The SPMU have prepared and submitted there AWP as per the provision of this manual
4	The SPMU have prepared and submitted the IUFR as per the provisions of this manual
5	Timely completion of audit

4.2.5 **TRANSFER OF FUNDS FROM SPMU TO EXECUTING AGENCIES**

4.2.5.1 Based on the AWP and the progress of works the Executing Agencies will submit their individual demands from time to-time from their respective Nodal Officer to the SPMU which is the controlling office of the project in the state.

4.2.5.2 Based on funds made available by the State Government from time to time, SPMU shall make funds available to each PEA based on the Annual Work Plan prepared by the state.

4.2.5.3 Each Executing Agency will have an exclusive bank account for smooth fiscal management.

4.2.5.4 After scrutiny of the Fund Release Proposal, the SPMU accords sanction to the expenditure and release the funds directly to Executing Agencies.

4.2.5.5 The Executing Agencies will deposit the funds received from SPMU in their designated bank accounts and incur all project expenditure from this bank account.

4.2.5.6 The funds shall be transferred to PEA through cheque or Bank to Bank transfer. The PEA shall keep the funds made available by the SPMU in the bank account maintained exclusively for the Project.

4.2.6 FUNDING BY THE WORLD BANK

4.2.6.1 The ICZM project is a World Bank assisted project. Under the proposed arrangement, the World Bank shall provide loan to the Central Government for financing the developmental activities under this project.

4.2.6.2 The World Bank shall provide funds to the project by depositing money to the 'Special Account' of the project.

4.2.6.3 **Special Account**

The Special Account is a revolving account in which World Bank deposits funds. These funds are used exclusively to cover the Bank's share of the eligible expenditure on the project. The Special Account is opened by the Government of India with the Reserve Bank of India. This account is maintained separately for each World Bank funded project in convertible foreign exchange.

4.2.6.4 **Operation of the Special Account**

The Special Account will be operated by DEA of GoI. The designated account will be operated in accordance with the World Bank's operational policies. Each deposit into the account will be the amount required to make the balance in the account equal to US$ XXXX million. The project will submit Withdrawal application to the Controller of Aid, Account and Audit (CAAA) in Department of Economic Affairs (DEA) for onward submission to Bank for replenishment of the designated account of reimbursement. Each disbursement of funds by Bank in Special Account will be transferred within a reasonable time on back-to-back basis by GoI

Bank funds will flow from CAAA / MoF through budget to MoEF. There will be a separate budget line for ICZM Project. There will be an initial advance (for upto six months' forecast expenditure) followed by IUFR-based replenishments, which will be placed in Special Account maintained by CAAA with RBI. The Special Account will facilitate quick reimbursements to Government's treasury for actual eligible expenditures under the project.

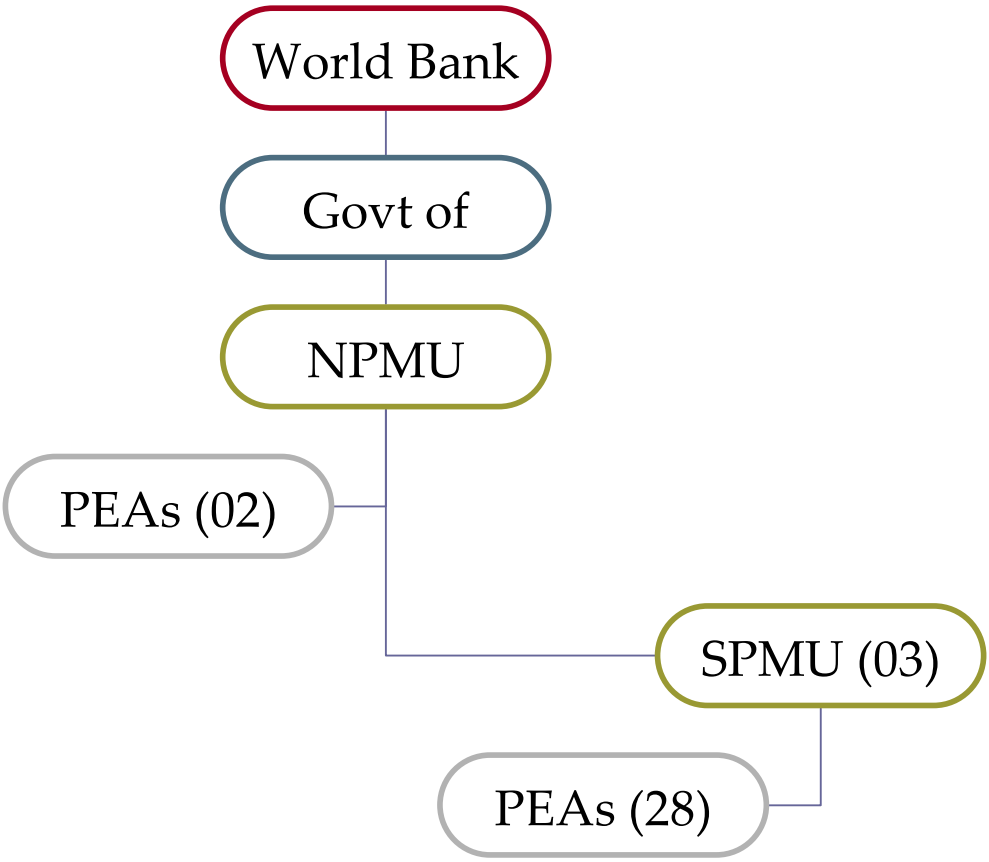
From the second quarter, the Bank will finance actual expenditure that are made on project components as reported in IUFR. All expenditure reported in IUFRs will be subject to confirmation / certification by the Annual Audit

Reports. Any discrepancies between the expenditure reported by the Annual Audited IUFRs and those reported in the Annual Audit Reports will be insisted in subsequent disbursements.

4.2.7 Fund Flow Chart

4.2.7.1 The fund flow arrangement for ICZM Project along with the detailed fund flow chart for each state is given under ***Exhibit 2.***

Exhibit 2 – **Fund Flow Arrangement for ICZM Project**



CHAPTER 5: FINANCIAL AND ACCOUNTING POLICIES

This chapter lays down the financial and accounting policies for the project.

It should be noted that the financial and accounting policies contained in this manual shall supplement the policies given in the **respective State Financial Rules**.

5.1 METHOD OF ACCOUNTING

5.1.1 ***Cash Basis of Accounting:*** The project accounts will be maintained in double entry system of accounting and will follow the cash basis of accounting, i.e., a transaction should be accounted for at the time of making payments only.

5.1.2 All payments should be charged off to the relevant expense account head at the time of making the payment except in case of certain receivables and payables, which are to be specifically mentioned with reasons in the Notes on Accounts, may be accounted for on accrual basis. In the case of advance payments, the process given elsewhere in this Manual may be followed.

5.2 TREATMENT FOR ADVANCE PAYMENT

5.2.1 Advances are defined as money given in advance, which is to be adjusted against goods/services to be received in future. An advance payment should continue to be treated as an advance until its final adjustment. At the time of periodic reporting by the project executing agency, advances outstanding should be indicated separately.

5.2.2 A project executing agency can make advance payment for the following purposes only:

(a) ***Advances to suppliers/contractors/vendors for procurement of works, goods and services:*** These advances shall be made in accordance with the purchase order issued or contract signed. These should be charged off to the relevant account head at the time of adjustment of advance on actual receipt of goods or services

(b) ***Advances to the project personnel (for the purpose of travel, conveyance etc.):*** These advances are temporary in nature and are to be settled on submission of bills / statements. The advance amount should be charged off to the relevant account head on passing of the bills only.

No staff advance/ loan (such as salary advance, house loan etc.) should be given out of the project funds.

(c) ***Advances to sub-contractors to carry out project activities:*** These advances should be charged off to the relevant account head on receipt of details of the expenditure incurred by the sub-contractor and its approval by the concerned project official.

5.3 FIXED ASSETS AND DEPRECIATION

5.3.1 Assets acquired under the project would be valued at cost including all direct costs (i.e., purchase price, transportation expenses, installation charges and other expenses incurred for bringing the fixed asset in working condition), incurred prior to its first use.

5.3.2 Assets created / constructed as part of the project activity should be valued at the direct cost incurred in creating / constructing the asset.

5.3.3 Assets both acquired and constructed should be valued at its full.

5.3.4 No depreciation should be charged on fixed assets in the Project Financial Statements. This fact should be disclosed in the Notes to Accounts attached to the Project Financial Statements.

5.4 VALUATION OF STOCKS

5.4.1 The material purchased for the project shall be charged as expenditure at the time of making payments for such material purchases.

5.4.2 Physical Verification of the Stocks shall be conducted annually and the same should be disclosed in the Notes to Accounts attached to Project Financial Statements along with discrepancies, if any.

5.5 EXPENDITURE WHICH WOULD BE CHARGED TO THE PROJECT

5.5.1 (a) All direct costs like purchase of material & supplies relating to project activities should be charged to the project.

(b) No expenditure which has already been charged to any other project should be charged to this project.

5.5.2 *Project Expenditure:* All payments made by ACs of the Project Executing Agencies for works done or services rendered shall be termed as expenditure, excluding advance

payment and payment of Government dues and deductions recovered from the salary bills or from the bills of the contractors, suppliers and other employees. The Project being jointly funded by the State Governments and by the World Bank, the Project Accounts reflect the total expenditure incurred by the Project. Therefore, all receipts, payments and expenditure are to be recorded in gross amounts, irrespective of the extent to which these expenses may be reimbursable by the World Bank.

5.6 CONTRACTORS & SUPPLIERS PAYMENTS

5.6.1 In case of supplies, no payment is permissible until the stores have been received and surveyed, except where payments are required to be made through Letter of Credit (LC) established in a Commercial Bank against irrevocable Bank Guarantee as a security against the amount advanced.

5.6.2 In case of Works Contract, payments shall be made to the contractor within a period of 60 days of presentation of the running bill. The running bills will be first submitted to respective Project Executing Agency. On receipt of the bill, the same shall be recorded in the Contractor Register before submitting the bill to the competent authority for technical verification. After due verification and comparing it with Measurement Book maintained by the department, the nodal officer may recommend SPMU for release of payment after statutory deductions. The SPMU shall make the payment through Executing Agency. The PEA will record the details in the Contractor Register before releasing cheque to the contractor.

5.6.3 The payment for last running bill shall be made after receiving Work Completion Certificate from appropriate authority.

5.6.4 Defect liability period shall be for one year from the completion of the contract and the security shall be released after getting of third party quality assurance certificate.

5.7 EXPENDITURE TO BE CHARGED UNDER DIFFERENT DISBURSEMENT CATEGORIES

5.7.1 The States are getting reimbursed by the GOI on the basis of expenditure incurred in different disbursement category. The State share of financing under different disbursement category is as under:

S.No.	Disbursement Category	State Share
1	Equipment	10%
2	Works	20%
3	Consultancies & Training	0%

4	M&E, Communication	0%
5	Grants	0%
6	Incremental Operating Costs	50%

Classification of costs under various heads of account and disbursement categories should be based on generally accepted accounting practices. These categories are broadly defined as under:

Civil Works

All payments to contractors for civil works, including cost of any construction material to be purchased directly by the contractor will be included under the head 'Civil Works'. This category will not include any payments for goods which are purchased by the implementing agencies and payments for services provided by the consultants in respect of supervision / inspection etc.

Equipment, Materials and Vehicles

This shall include all costs for purchases inclusive of all charges (e.g., transportation, duties and taxes) provided in the suppliers' invoice. However, transportation, handling, storage etc paid separately would not be included separately.

Consultant's Services (including NGO Services)

This will include all charges for professional services rendered by outside parties (other than implementing agencies themselves) for implementing the project. Consultancy charges would normally be paid against contracts with Consultants / NGOs. No charges of the implementing agencies (e.g., departmental overhead charges, survey & design charges etc) should be included under this head. All direct expenditure reimbursed to the consultant should also be included under this head.

Training

This will include all direct costs relating to training such as cost of trainees, traveling expenses, cost of conducting training workshops, cost of printing of brochures for training, honorarium to experts etc.

Incremental Operating Costs

This will include costs of operation and maintenance of additional buildings, equipment and vehicles, and salaries of additional staff incurred for the purposes of carrying out the Project. Government Staff, if deputed for the project, will not fall under IOC and shall not be disbursed.

Grants

Grants means all works that are executed through the Community and the fund flow is done through the community bank accounts.

CHAPTER 6: BOOK-KEEPING & ACCOUNTING

6.1 OVERVIEW OF THE EXISTING SYSTEM

6.1.1 At present, all the participating states and the Government of India involved in the implementation of this project follow the Government Accounting System. This system is well documented in their respective Financial Rules.

6.1.2 For the purpose of project accounting / budgeting, each implementing state allots a specific code to the project and the budget allocations for the project are made under various account heads. The accounting of the actual expenditure is done by state project offices as per the chart of accounts specified by the government under this code.

6.1.3 Currently, the accounting is carried out manually. However, some of the Executing agencies use computers for the purpose of compiling statements.

6.2 ACCOUNTING CENTRES UNDER THE PROJECT

6.2.1 Each office responsible for incurring expenditure under the project will be declared as an Accounting Center (AC). Hence NPMU, SPMU and Executing Agencies under SPMU will be the Accounting Centers under the project. There are 28 PEAs identified under the project – 6 in Gujarat, 10 in Orissa and 12 in West Bengal. The PEAs will work under the overall guidance of the respective SPMUs and the controlling department. The legal status of the PEAs and controlling departments in the state are varied – registered societies, company under the companies act, government departments, authority under separate act, urban local body etc. The PEAs follow accounting, and audit codes as prescribed by the respective governments/rules. The PEAs will follow uniform project accounting and reporting procedures for the project as prescribed in this Manual, which will ensure proper FM systems and procedures (comprising budgeting, internal controls, accounting, reporting and audit) to account for and report on the PEA's share of project resources and expenditure as per requirements of the Bank

Each AC will be subject to the normal financial supervision under the project including timely reporting, compliance with project Financial Management (FM) guidelines as documented in this Manual, audit etc. Each PEA will designate a senior officer as Nodal officer of that department. Nodal officer of each PEA shall be the person primarily responsible for implementation of sound FM guidelines for the ACs under him. He will be assisted in this function through training, capacity building support by the SPMU.

It is envisaged that the accounting and payments at the state level would be centralized in the SPMU level. It implies that the payments would be made at the state level by the SPMU based on the work certification done by the PEA. This would help in consolidation of accounting and would ensure better control on the funds and monitoring of works. However there would be exceptions to this rule in case of

- Force Account to be carried out by the PEA,
- IOC expenses to be carried out by the PEA and
- PEA with systems better than SPMU as per the bank assessment which can do the accounting and reporting on a individual basis.

The PEA shall prepare accounts for these limited expenditures to be incurred by them.

6.2.2 The accounting entries of the project will be made at various Accounting Centres (AC) and these will need to be consolidated at SPMU to get financial information of the project as a whole. The proposed ACs for the project shall be as follows:

MoEF, GOI

(i) NPMU
(ii) Survey Of India, Dehradun

State Government of Gujarat

(iii) BISAG
(iv) Gujarat Ecology Commission
(v) GEER Foundation
(vi) Jamnagar Municipal Corporation
(vii) Gujarat Pollution Control Board
(viii) Marine National Park
- DCF, Kachchh District (East)
- DCF, Kachchh District (West)

State Government of Orissa

(i) Project Implementation Office (ICZMP)
- Executive Engineer, Aul Embankment Division, Aul District Kendrapara, Orissa

(ii) Water Resources Department
(iii) State Pollution Control Board
(iv) Department of Revenue (OSDMA)
(v) Department of Forest & Environment (Wild Life)
- Wild Life Division, Rajnagar
- Wild Life Division, Chilka

- Territorial Division, Berhampur

(vi) Department of Fisheries & Animal Husbandry
- Assistant Director of Fisheries, Breeding & Technology Unit, Balugaon
- District Fisheries Office, Kendrapara.

(vii) Department of Tourism
- Orissa Tourism Development Corporation Ltd. (OTDC)

(viii) Department of Culture
- Superintendent, Orissa State Archaeology, Bhubaneswar

(ix) Department of Industries

(x) CDA

(xi) Paradeep Municipality

a. Executive Officer, Paradeep Municipality, District Jagatsinghpur

State Government of West Bengal

(i) Digha Shankarpur Development Authority
(ii) Forest Department, Govt of West Bengal
(iii) Institute of Environmental Studies and Wetland Management
(iv) Public Health Engineering Directorate (WB)
(v) Sunderban Infrastructure Development Corporation Ltd.
(vi) University of Calcutta
(vii) West Bengal Fisheries Corporation Ltd.
(viii) West Bengal State Electricity Distribution Company Ltd.
(ix) Zoological Survey of India

6.3 USE OF ACCOUNTING SOFTWARE

6.3.1 Accounting Centers will record and maintain project books of account in an off the shelf Accounting Software. The accounting software - '*Tally ERP.9*" – should be used for the purpose of accounting at NPMU, SPMU & PEA-level. Additional IT support will be provided by the Systems Analyst of the SPMU. Training of at least 3 persons at the SPMU will be carried out prior to the start of the project.

6.4 BANKING

6.4.1 All Accounting Centers involved in the project will open bank accounts with branches of either one or (at the most) two banks selected by the SPMU. These bank accounts will be used exclusively for receipts and payments of the Project. Using network of the same bank will enable efficient transmission of funds. All bank accounts under the Project will be under joint signatures, i.e., to be signed jointly by more than one officer.

Following table give a list of bank accounts to be opened for the project along with their signatories:

Table-2: Details of Bank Account to be Opened at each State along with their signatories

S.No.	Project Executing Agency	Bank Account to be Opened At	Signatories to the Bank Accounts
National			
State of Gujarat			
State of Orissa			
State of West Bengal			

6.4.2 **Bank Reconciliation Statement –** Monthly Bank Reconciliation Statements should be prepared at NPMU, SPMU & PEA-level. The steps to be followed are given hereunder: Within ten days following the end of every month, bank statement should be obtained from the bank.

- Soon after receiving the bank statement from the bank the balance appearing therein should be reconciled with that shown in the cash book by preparing the bank reconciliation statement

- Each month the bank reconciliation statement should be reviewed carefully to investigated long outstanding cheques deposited or issued or any other item for settlement.

- All debits charged by bank for bank charges or commissions and all credits for the interest and other that appears in the monthly bank statement should be scrutinized carefully before accepting them as correct and before recording those debit/credits in the cash book.

- Cheques older than 6 months from date of issue should be written back into the cash book noting the reference number and date of payment voucher and

liability towards concerning Head of Account be created for payment in future.

6.5 CHART OF ACCOUNTS

6.5.1 A Chart of Accounts (CoA) has been developed keeping in view the needs of the accounting system and World Bank Reporting requirement. The CoA has been designed in such a way that it facilitates reporting by Component, Activity and Disbursement Category. It contains a list of groups, sub-groups & heads of accounts. The CoA also identifies the flow of each head of account into the Annual Financial Statements for the purpose of consolidation. It will be noted that the accounting software will automatically consolidate the heads of accounts into sub-groups and groups and hence no separate manual posting to these groups and sub-groups needs to be done. The CoA is based on the cost tables finalized by the various PEAs. The CoA is enclosed vide **Annexure-2.**

6.6 BOOKS OF ACCOUNTS

6.6.1 The following is the list of books of accounts that are to be maintained to record all the financial transactions of the Project. Each AC will open and maintain these books of account in the prescribed formats which are enclosed as **Annexure-3.**

(a) Cash Book (Self generated Format from TALLY)

(b) General Ledger (Self generated Format from TALLY)

(c) Advances Register (Self generated Format from TALLY)

(d) Cheque Issue Register (Format No. 3a)

(e) Contractor Register (Format No. 3b) – A contractors' register showing details of running bills received from contractors be maintained. The register should have a separate folio for each contractor. The details of deductions made per bill along with the details of payments made against that bill be entered into this register.

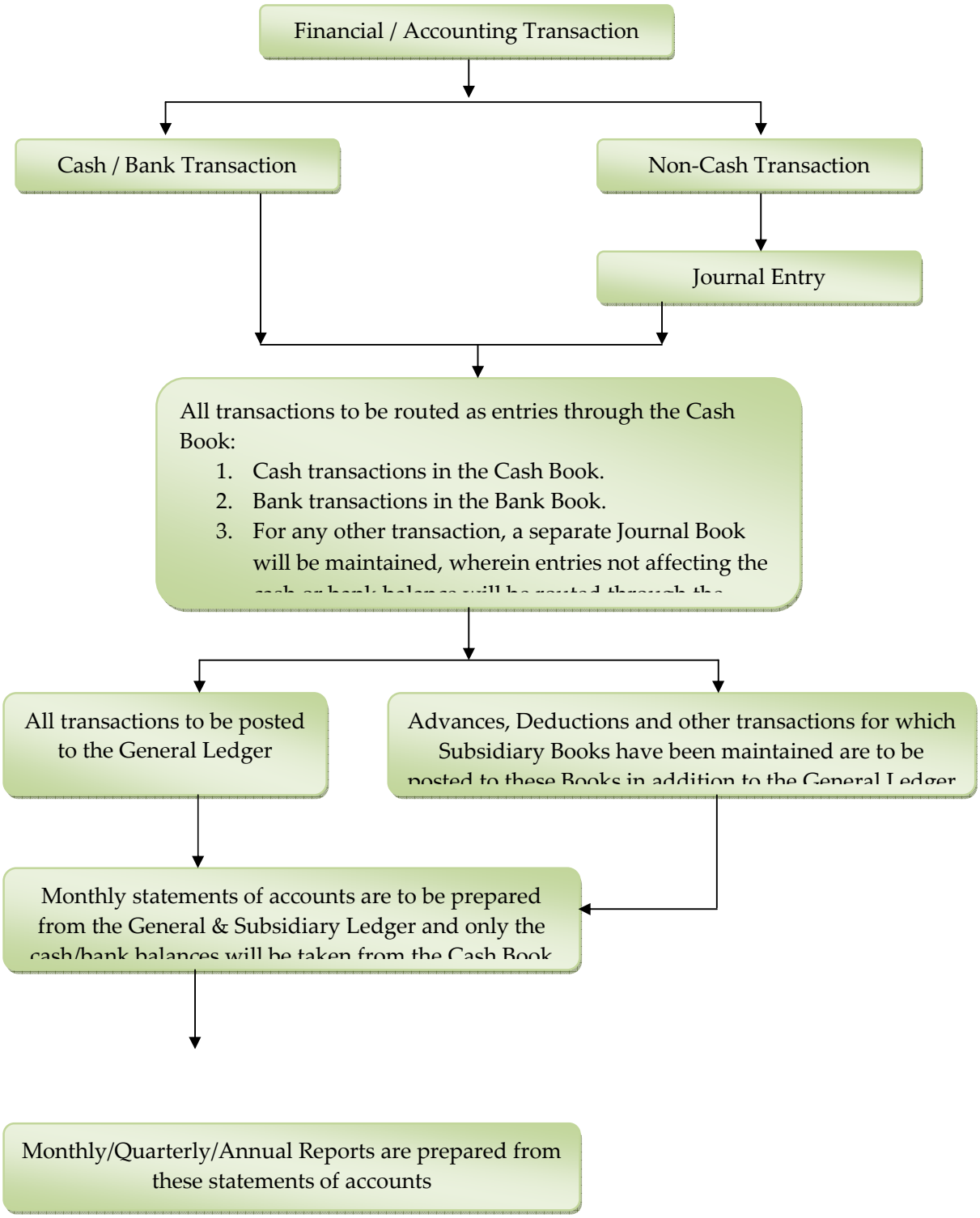
(f) Stock Register – to be maintained by PEAs where work is to be done through Force Account (Format No. 3c)

- Fixed Asset Acquired/Constructed Register – only to record assets acquired or constructed during the project period with project funds (Format No. 3d). It will be necessary to keep an accurate account of such assets for physical control.

- To meet this requirement, a Fixed Asset Register should be prepared wherein all particulars of the assets acquired or constructed should be posted from the proper accounts immediately after the payment. The fixed assets register should show the details like name of supplier, quantity, make, identification number, value and location of each category of fixed asset held by the project.
- An identification number for each category and each fixed asset item should be assigned for easy identification of the assets. These identification numbers should be painted on each item, and the number should be indicated on the fixed assets register for each asset.
- The finance manager should assign a responsible staff to maintain the fixed asset register and make entries therein from the appropriate accounts immediately after the payment for each item is made by the accountant.
- Physical verification of fixed assets shall be conducted at least once a year and report placed before Project Director. A Committee of three persons shall be formed by the Project Director to conduct the physical verification.

6.6.2 Guidance for Recording of Accounting Transactions

Flow Chart of Accounting Transactions



6.6.3 Maintenance of the Cash Book

6.6.3.1 The ACs are required to maintain a separate Cash Book for the Project. Transaction relating to the project should only be entered in the cash book and the transactions relating to schemes/project of other Government Ministries, Agencies etc should not be included in these Cash Books. For the uniform classification of accounts, a list of account heads is annexed. New heads of accounts MAY NOT be opened without the prior written consent of the SPMU.

6.6.3.2 All receipts and payments will be posted in the Cash Book on a regular basis. The entries will mention the date, head of account, the account code, the voucher number, the cheque number and a short description of the transaction.

6.6.3.3 The Cash Book will be certified, summarized, closed and signed on the last working day of the month by the AC. The monthly closing balance will have details of balances available in the Bank Pass Book and the details of the Cash-in-Hand.

6.6.3.4 All receipts of money will be entered in the Cash Book on the day they are received.

6.6.4 Maintenance of General Ledger, Advances Ledger and other Subsidiary Registers

6.6.4.1 Each AC will maintain a General Ledger and an Advances Ledger. Different pages of the General Ledger will be for different heads of accounts (including advances) and different pages of the Advances Ledger will be for each entity / individual to whom advances are granted. Each receipt and payment in the cash book must be posted to the General Ledger and Advances, as also their adjustment and/or refund must also be posted to the Advances Register. The entries will mention the date voucher number, cheque number and a short description of the transaction.

6.6.4.2 At the end of the month, a head-wise abstract will be prepared showing monthly totals of payment under each head. The summary of the Advances Ledger accounts should tally with the total of advances as per the General Ledger.

6.6.4.3 The AC will also maintain a Cheque Issue Register and record details of all cheques issued, including details of stale and/or cancelled cheques.

6.6.4.4 A monthly Trial Balance based on the General Ledger and Cash Book will be prepared. Since the project will be using Tally software, the Trial Balance, General Ledger will be self generated by Tally.

6.6.5 Guidelines for Payments

6.6.5.1 For effective control over disbursements, it is essential to determine the number and status of persons authorized to approve expenditures and sign cheques, the limitation of their authority, and the minimum number of signatories required for the operation of bank accounts. This would be governed by the financial rules of the state.

6.6.5.2 All payments must be supported by documents such as bills, receipts and cash memos.

6.6.5.3 All Payments must always be made by cheque unless there is a necessity to pay by cash.

6.6.5.4 All payments exceeding Rs. 5,000/- shall be made by Cheque / Demand Draft.

6.6.5.5 ACs will release their funds as an Advance only in exceptional cases upon written instructions from the SPMU.

6.6.5.6 All paid vouchers will be retained for the period of 10 years from the date of completion of the Project or till the last audit is completed and settled.

6.6.5.7 A system of debit voucher for each payment (whether by cheque or in cash) will be introduced. The debit vouchers indicate particulars of expenditure, account code and head under which it is classified and mode of payment (cheque/DD/cash). The debit voucher will be approved by the Accounts Officer and shall form the basis for posting to the Cash Book.

6.6.5.8 When disbursing the payments, the Accountant should obtain the signature of the payee or his authorized representative acknowledging receipt of cash or cheque as the case may be.

6.6.5.9 Accountant should also ensure before passing the payment of any supply of materials/assets that those items have been entered in Stock Register and proper folio number is allotted and mentioned in the Goods Receipt Note. The measurement and quality of those items should be approved by the Project Manager on Goods Receipt Note.

6.6.5.10 Prior to payment for services, a copy of the order authorizing the engagement of the person concerned for a particular job or assignment and a statement of completion of the job or assignment should be obtained. When a cheque payment is made to any firm an official receipt should be obtained.

6.6.5.11 All payments for works that are centralized at SPMU would be made by SPMU based on the work certification by PEA. Bills will be submitted by the Contractor to the respective PEA. On receipt of the bills, the PEA shall verify them both financially and technically. After verification, the Nodal officer of the PEA shall forward the running bills to SPMU along with the Measurement Book. The SPMU shall release the payments after their satisfactory review of the bills and supporting documents attached with the bills.

6.6.5.12 Counterfoils of cheques issued should bear the payee's name, amount, date of issue, voucher no. and initials of the signatories.

6.6.5.12 Cheque book/money should always be kept under lock and key in safe custody of the Accountant.

6.6.5.13 Cancelled cheques should be retained in the cheque books. The corners of the cheque should be torn off as a measure of safeguarding any misuse of such cancelled cheques in future. The word 'CANCELLED' should be written over the cancelled cheques.

6.6.5.14 Payment must be posted in the Cash Book on a daily basis.

6.6.6 Recording of Accounting Transactions

6.6.6.1 Payment to Contractors:

(a) Mobilization Advance: Will be treated as advance at the time of making the payments. Upon submission of running account bills, the advance will be adjusted by crediting 'advance account' and making a debiting relevant expenditure through a adjustment voucher.

(b) Bill Payments: This is recorded as a debiting the Expenditure to the extent released to them. The deductions against their bill, on account of taxes, retention money etc will be recorded also be debited under the same head and crediting similar amount under the head 'Contractors' Deductions and Deposits'.

(c) Deposit / Release of Deductions: Any payment of money retained as a deduction is debited in the Bank column (for cheque payments) under the head 'Contractors' Deductions and Deposits'.

6.6.6.2 Payments to Self-Help Groups, User Groups, etc: Payments to these groups are based on contractual milestones; thus, when payments are made to these entities, these payments are to be treated as an expenditure under the specified head and recorded as a debit in the Bank column (for cheque payments).

6.6.6.3 Bank Charges: Upon scrutiny of the statement after receipt from the Bank, if any bonafide charges have been deducted from the account, a debit entry is recorded in the Bank column as 'Bank Charges'.

6.6.6.4 Payment of Advances: This is recorded as a debit in the Bank column (for cheque payments) as a 'advance', e.g., travelling advance. Upon submission of the payment vouchers, the advance will be adjusted by a credit entry of the full amount of the advance in the Cash column under the head 'advance' and by a debit entry of the amount adjusted in the Cash column as an expenditure, e.g., traveling expenses.

6.6.6.5 Correction of Mistakes: In the event of a mistake being discovered at a later date, it will be corrected by another entry on the date of discovery and NOT by overwriting / erasing / correcting the wrong entry and any resulting changes in the voucher or cash book. The correction entry will have the same head of account as the original one.

6.7 CONSOLIDATION OF ACCOUNTS

6.7.1 Accounting entries of the project will be made at various Accounting Centers (AC) and these will need to be consolidated to get financial information of the project as a whole. ACs will record and report project information in books of account which will be maintained in *Tally ERP.9* software. The data of accounting entries entered in the accounting software by each PEA will be transferred to its respective SPMU by the 7th day of the following month in the soft form (i.e., CD) for necessary consolidation at SPMU-level.

The consolidation will take place using a specific feature of Tally software. Each PEA will have a unique 5-digit code which will be represented by the name of the subfolder under //tally/data sub-directory. The data of each PEA will be transferred to SPMU through email or CDs. This data will be transferred to the computer where SPMU's accounting record is available. A group company will be created in this computer wherein the accounting data of various PEAs will be consolidated.

After successful consolidation of data at SPMU-level, the same will be transferred to NPMU for all the three States independently, where the NPMU will consolidate the accounting data of the 3 states along with its own accounting transactions. The same process, as mentioned above, will be followed for the purpose of consolidation of accounting data at NPMU-level. The consolidated reports can be generated at NPMU-level.

The accounting role of each of the Executing agency is briefly described in Table-3.

Table-3: Accounting Note on Each Accounting Centre

Institution	Accounting and reporting responsibilities
IA	• *An accounting centre of the program.* • *Receive funds from SPMU for implementation of the Project.* • *Maintains book of accounts using TALLY accounting software on double entry system and following cash system of accounting.* • *Reports to SPMU on Monthly/quarterly basis as per this manual.*
SPMU	• *An accounting centre of the Project.* • *Incurs its own expenditure.* • *Transfers funds to PEA as per there requirement and funds availability.* • *Maintains book of accounts using TALLY accounting software on double entry system and following cash system of accounting.* • *Consolidates the expenditure reports received from PEA with it's own expenditure..* • *Reports to NPMU/GOI on Quarterly and annual basis as per the formats prescribed in this manual*
NPMU	• *An accounting centre of the Program.* • *Incurs its own expenditure.* • *Transfers funds to its PEA /SPMU's /State Government as per there requirement and funds availability* • *Maintains books of accounts using TALLY accounting software on double entry system and following cash system of accounting.* • *Consolidates the expenditure reports received from PEA/SPMU with its own expenditure* • *Reports to World Bank/GOI on Quarterly and annual basis as per the formats prescribed in this manual*

The roles of each can be briefly summarized in the **Table-4.**

TABLE-4

Institution	Accounting Tasks		
	Accounting centre	Consolidation	Reporting
PEA	✓		✓
SPMU	✓	✓	✓

NPMU	✓	✓	✓

The sample of accounting entries which need to be passed at NPMU, SPMU & PEAs are given hereunder:

ACCOUNTING ENTRIES

(In the Books of NPMU)

1. **Transfer of Funds from MoEF to NPMU**

1.1 Bank Account Dr.
To Government of India / MoEF
(being funds received from MoEF through receipt voucher)

2. **Transfer of Funds from NPMU to SPMU / PEA**

2.1 Inter Unit Transfer (NPMU-SPMU) Account Dr.
To Bank Account
(being funds transferred to SPMU through payment voucher)

2.2 Inter Unit Transfer (NPMU-PEA) Account Dr.
To Bank Account
(being funds transferred to PEA under NPMU through payment voucher)

3. **Payment for Expenditure made under the Project**

3.1 Expenditure Account Head Dr.
To Bank / Cash Account
(being amount paid to …….. against Bill No. …… dated …….)

4. **Payment of Advances**

Accounting for Advances to Contractors / Suppliers / Vendors

4.1 Relevant Advance Ledger Account Dr.
To Bank Account
To TDS Payable
To Security Deposit
(being amount paid to …… after deducting tax at source through payment voucher)

Adjustment of Advance

4.2 Expenditure Account Head Dr.
To Relevant Advance Ledger Account
(being advance amount adjusted through journal voucher)

5. **Transfer of Unspent Funds from SPMU / PEA**

5.1 Bank Account Dr.
To Inter Unit Transfer (NPMU-SPMU) Account
(being unspent funds lying with SPMU received back at NPMU through receipt voucher)

5.2 Bank Account Dr.
To Inter Unit Transfer (NPMU-PEA) Account
(being unspent funds lying with PEA received back at NPMU through receipt voucher)

6. **Transfer of Unspent Funds Lying with NPMU to Govt of India**

6.1 Government of India / MoEF Dr.
To Bank Account
(being unspent funds lying with NPMU transferred to Govt of India, MoEF Account)

7. **Deposit of TDS in Government Account**

7.1 TDS Payable Dr.
To Bank Account
(being tax deducted on payment to contractor , now deposited in Government account)

ACCOUNTING ENTRIES

(In the Books of SPMU)

1. **Transfer of Funds from NPMU to SPMU**

1.1 Bank Account Dr.
To Inter Unit Transfer (NPMU-SPMU) Account
(being funds received from NPMU through receipt voucher)

2. **Transfer of Funds from SPMU to PEA**

2.1 Inter Unit Transfer (SPMU-PEA) Account Dr.
To Bank Account
(being funds transferred to PEA under SPMU through payment voucher)

3. **Payment for Expenditure made under the Project**

3.1 Expenditure Account Head Dr.
To Bank / Cash Account
(being amount paid to …….. against Bill No. …….. dated ……..)

4. **Payment of Advances**

Accounting for Advances to Contractors / Suppliers / Vendors

4.1 Relevant Advance Ledger Account Dr.
To Bank Account
To TDS Payable
To Security Deposit
(being amount paid to …… after deducting tax at source through payment voucher)

Adjustment of Advance

4.2 Expenditure Account Head Dr.
To Relevant Advance Ledger Account
(being advance amount adjusted through journal voucher)

5. **Transfer of Unspent Funds from PEA**

5.1 Bank Account Dr.

To Inter Unit Transfer (SPMU-PEA) Account
(being unspent funds lying with PEAs received back at SPMU through receipt voucher)

6. **Transfer of Unspent Funds Lying with SPMU to NPMU**

6.1 To Inter Unit Transfer (NPMU-SPMU) Account Dr.
To Bank Account
(being unspent funds lying with SPMU transferred to SPMU)

7. **Deposit of TDS in Government Account**

7.1 TDS Payable Dr.
To Bank Account
(being tax deducted on payment to contractor , now deposited in Government account)

8. **Purchase of Stock**

8.1 Relevant Expenditure / Activity Account Head Dr.
To Bank Account
(being amount spent towards purchase of stocks / stores)

9. **Imprest Accounting**

9.1 Imprest to ABC Dr.
To Bank Account
(being amount paid to ABC for incurring day-to-day expenses through payment voucher)

9.2 Expenditure Account Head Dr.
To Imprest to ABC
(being expenditure incurred by ABC adjusted through Journal voucher)

ACCOUNTING ENTRIES

(In the Books of PEA)

1. **Transfer of Funds from NPMU to PEA**

1.1 Bank Account Dr.
To Inter Unit Transfer (NPMU-PEA) Account
(being funds received from NPMU through receipt voucher)

2. **Transfer of Funds from SPMU to PEA**

2.1 Bank Account Dr.
To Inter Unit Transfer (SPMU-PEA) Account
(being funds received from SPMU through receipt voucher)

3. **Payment for Expenditure made under the Project**

3.1 Expenditure Account Head Dr.
To Bank / Cash Account
(being amount paid to …….. against Bill No. …….. dated ……..)

4. **Payment of Advances**

Accounting for Advances to Contractors / Suppliers / Vendors

4.1 Relevant Advance Ledger Account Dr.
To Bank Account
To TDS Payable
To Security Deposit
(being amount paid to …… after deducting tax at source through payment voucher)

Adjustment of Advance

4.2 Expenditure Account Head Dr.
To Relevant Advance Ledger Account
(being advance amount adjusted through journal voucher)

5. **Transfer of Unspent Funds Lying with PEA to SPMU**

5.1 To Inter Unit Transfer (SPMU-PEA) Account Dr.

To Bank Account
(being unspent funds lying with PEA transferred to SPMU)

6. **Deposit of TDS in Government Account**

6.1 TDS Payable Dr.
To Bank Account
(being tax deducted on payment to contractor , now deposited in Government account)

7. **Purchase of Stock**

7.1 Relevant Expenditure / Activity Account Head Dr.
To Bank Account
(being amount spent towards purchase of stocks / stores)

8. **Imprest Accounting**

8.1 Imprest to ABC Dr.
To Bank Account
(being amount paid to ABC for incurring day-to-day expenses through payment voucher)

8.2 Expenditure Account Head Dr.
To Imprest to ABC
(being expenditure incurred by ABC adjusted through Journal voucher)

CHAPTER 7: FINANCIAL REPORTING, CONSOLIDATION & ANNUAL ACTIVITIES

7.1 OBJECTIVES

7.1.1 The proposed financial MIS has been designed with the following main objectives:

(a) To provide project executing agencies with relevant information that would enable them to plan, monitor and control the various project activities.

(b) To identify and report critical areas of information which are relevant at different levels of project executing agencies and would facilitate in decision making at those levels.

(c) To provide a basis for evaluation of the various project activities by regular comparison of actuals with the budgets.

(d) To provide a basis for taking remedial actions to correct any adverse trend.

(e) To facilitate management by exception by presenting critical and select information to the top management of NPMU / SPMUs / PEAs, the World Bank and the State Governments / Central Government.

7.2 TYPES OF REPORTS

a. External Reports:

Reports that are generated for the purpose of submission to the GOI and World Bank are the External Reports. They are further classified into quarterly and annual financial reports. The formats of Financial Managements Reports (FMRs) are detailed in **Annexure IV.**

S.No.	TITLE OF REPORT	REPORT NO.	PERIODI-CITY	BY WHEN
Quarterly Reports				
1	Reimbursement Report	IUFR-1	Quarterly	Within 45 days of the end of the Quarter
2	Fund utilization for the Quarter in the Project	IUFR-2	Quarterly	Within 45 days of the end of the Quarter

3	Details of Expenditure component/ Sub-component wise	IUFR-3	Quarterly	Within 45 days of the end of the Quarter
4	Details of expenditure under National Component	IUFR-4	Quarterly	Within 45 days of the end of the Quarter
5	Details of expenditure under Gujarat State Component	IUFR-5	Quarterly	Within 45 days of the end of the Quarter
6	Details of expenditure under Orissa State Component	IUFR-6	Quarterly	Within 45 days of the end of the Quarter
7	Details of expenditure under West Bengal State Component	IUFR-7	Quarterly	Within 45 days of the end of the Quarter
8	World Bank Fund requirement	IUFR-8	Quarterly	Within 45 days of the end of the Quarter
Annual Reports				
1	Sources and application of Funds	AFS-1	Yearly	30th September of the following year
2	Details of expenditure under National Component PEA wise	AFS-2	Yearly	30th September of the following year
3	Details of expenditure under Gujarat State Component PEA wise	AFS-3	Yearly	30th September of the following year
4	Details of expenditure under Orissa State Component PEA wise	AFS-4	Yearly	30th September of the following year
5	Details of expenditure under West Bengal Component PEA wise	AFS-5	Yearly	30th September of the following year
6	Reconciliation of claims to total application of funds	AFS-6	Yearly	30th September of the following year

7	Reconciliation of State Reimbursement from GOI	AFS-7	Yearly	30th September of the following year

b. Internal Reports:

Reports that are generated by the Project, which will assist in internal monitoring and in preparation of the External Reports, are Internal Reports. Internal reports are generated by PEA's and SPMU's

Following are the Internal Reports that shall be generated by the Project. The formats of these reports are enclosed vide **Annexure-4.**

S.No.	TITLE OF REPORT	REPORT NO.	PERIOD I-CITY	BY WHEN	PREPARED BY	SUBMITTED TO
1	Activity wise Statement of Expenditure	IA-1	Monthly	7th of the following month	All PEA's	SPMU
2	All quarterly reports mentioned under External Reports	IUFR-1 to 8	Quarterly	7th of the following month	All SPMU's	NPMU

7.3 PREPARATION OF MIS

7.3.1 The proposed Financial MIS will be generated manually. These will be based on the accounting data maintained in 'TALLY'. MIS reports shall be prepared by the respective Executing Agencies in respect of the activities directly carried out by them. In addition, SPMU/NPMU shall consolidate the MIS reports generated by each PEA/SPMU.

CHAPTER 8: AUDIT ARRANGEMENTS

8.1 BACKGROUND

8.1.1 Audit of accounts, statements and reports provides means to ensure accuracy and check in financial system of an organization. To ensure proper functioning of the financial system on prescribed norms in the Manual, the Project requires an exhaustive auditing arrangement. In this chapter, essential elements involved in the mechanism of conducting financial audit have been highlighted. Three types of audits would be carried out as follows:

a) Internal Audit by an independent firm of Chartered Accountants on quarterly basis.

b) Statutory Audit by an independent firm of Chartered Accountants on annual basis.

c) Statutory Audit by CAG.

8.1.2 STATUTORY AUDIT (ANNUAL)

Annual project financial statements and accounts will be subject to audit by an independent CA firm acceptable to the Bank. The audit and reporting will be in accordance with the TOR agreed by the Bank. The annual project auditor will be appointed by NPMU to cover all the activities under ICZM. The annual project audit report which will provide the consolidated project financial statement along with a summary of the observations will also attach individual SPMU financial statements and observations. All expenditures reported in the IUFRs will be subject to confirmation/ certification by the annual project audit reports. Any discrepancies between the audited and un-audited IUFRs will be adjusted in subsequent disbursements. The annual project audit report and accounts will be submitted to the Bank by the 30th of September each year. Thus the following audit reports will be monitored in the Audit Reports Compliance System (ARCS) of the Bank:

Executing Agency	Audit	Auditors	Audit Due Date
NPMU & SPMU	Consolidated ICZM Project Financial Statement & State-wise Consolidation Project Financial	CA firm	September 30

	Statements		
MoF	Special Account	CAG	September 30

8.1.3 INTERNAL AUDIT (QUARTERLY)

To perform internal audit of the PEAs in the state, NPMU will appoint a CA firm/s. The internal auditors would audit the NPMU/SPMU/PEA and all activities which are being funded by this project. This is a part of the inherent project design. The auditor so appointed should be an independent auditor and acceptable to the Bank. The auditor would be appointed within 3 months from effectiveness.

8.2 OBJECTIVES

8.2.1 The object of the audit would be to provide a confirmation to the project management and to various stakeholders (such as Government of India, State Governments of respective executing states, World Bank etc.) on the accuracy of the project financial statements, compliance with loan covenants and satisfactory working of the financial management systems.

8.3 CONDUCT AND COVERAGE OF AUDIT

8.3.1 A firm of Chartered Accountants would be appointed by NPMU as mentioned above.

8.3.2 The quarterly audit will be to review of the adequacy and adherence to the internal control measures. It will be conducted on quarterly basis. The firm will carry out the annual audit and provide an audit opinion on the annual financial statements and the reimbursement claims to respective NPMU/SPMU. The quarterly audit report shall be provided with in end of the month following the Quarter. The annual audit report shall be provided within six months of the end of the Financial Year.

8.3.3 The audit will cover the entire project. The audit would be carried out at each of the implementation agencies of the project. The audit will cover all offices of the Program, i.e., SPMU, PEA. The audit includes the verification of expenditure incurred directly by these offices, for the purpose of the Program. The audit will include checking of prescribed financial and management Reports generated at various levels periodically. The audit would also include cost based consultancy / training / research or other contracts / agreements where payment is made to the contractor / consultant / institute on the basis of actual expenditure incurred and no documentation in support of the expenses is provided to the project agencies.

8.4 AUDIT COMMITTEE

8.4.1 NPMU and each SPMU shall form an Audit Committee to be headed by the Project Director to review the audit observations submitted by the Internal & External Auditors.

8.4.2 At the State level the following shall be members of the audit committee:

1. Project Director of SPMU
2. Finance officer of SPMU
3. Finance officer of NPMU

The Audit Committee should meet at least once a quarter. The nodal officers of the PEAs will be called for the Audit Committee meeting. The internal auditor shall also be invited for the meeting

8.4.3 At NPMU-level the following shall be members of the audit committee:

1. Project Director of NPMU
2. Project Director of SPMUs
3. Finance Officer of NPMU

The Audit Committee should meet at least once a quarter. The nodal officers of the PEAs under NPMU will be called for the Audit Committee meeting. The internal auditor shall also be invited for the meeting

8.4.2 A register (both physical & electronic form) on audit observations will be made at NPMU & SPMU in the following manner.

Observation	Date	Action	Remarks

All observations must be recorded along with date and criteria developed that the same will be acted upon within 30 days. This register will be printed out at the end of every quarter and submitted to the Audit Committee for their appraisal. Any decisions taken in the Audit Committee shall be recorded in the minutes and forwarded to the concerned office for further action. A follow-up action taken report shall be placed in the next Audit Committee meeting.

8.4.3 A summary of audit observations, replies of concerned office and the action taken by SPMU / NPMU shall be placed before the Steering Committee at least once in a year.

8.5 TERMS OF REFERENCE FOR AUDITORS

8.5.1 The Terms of Reference for the External & Internal Auditors are given as per **Annexure 5a & 5b**, respectively.

8.6 TENURE OF AUDITOR

8.6.1 The Auditors will be appointed for an initial contract period of 2 years. Based on the satisfactory completion of 2 years, the contract may be extended every year for the next three years.