Annexure – 5b

TERMS OF REFERENCE
For
Internal Audit

I. BACKGROUND

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.

2. GOI's Ministry of Environment & Forests (MoEF) will have the lead responsibility for project implementation and ensuring that the project development objectives are met. The Department of Forest & Environment (DoFE) of each of the three participating states will be the key partners of MoEF in project implementation. Each of these four 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.

3. National Project Monitoring Unit (NPMU) and each State Project Monitoring Unit (SPMU) will have multiple line departments as Project Executing Agencies (PEA) who will also incur expenditure under the project. Each office responsible for incurring expenditure under the project is an Accounting Center (AC). Hence NPMU & PEA under NPMU as well as SPMU and PEA under SPMU will be the Accounting Centers under the project. 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 the Financial Management Manual (FMM), audit etc. Each PEA has designated a senior officer as Nodal officer of that department. Nodal officer of each PEA is the person primarily responsible for implementation of sound FM guidelines for the ACs under him..

4. The financial policies & accounting procedures adopted by NPMU & SPMUs are guided by Financial Management Manual (FMM) approved by the World Bank.

5. The Project accounts (books of account, documents & records) provide the basis for preparation of Internal Unaudited Financial Reports (IUFRs) and Project Financial Statements (PFS) and are established to reflect the financial transactions in respect of the project as maintained by the PEAs of various SPMUs and NPMU.

6. The accounting entries of the project will be made at various ACs and these will need to be consolidated at SPMU and subsequently at NPMU to get financial information for the project as a whole.

II. OBJECTIVE

7. The objective of the Internal Audit is to:

i) Provide the Project Management (NPMU & SPMUs) timely fiduciary assurance that the Financial Management Systems and Internal Control procedures, as applicable to the project, are being adhered to by the various executing units, and the financial reports being submitted by PEAs to their respective SPMUs and by SPMUs to the NPMU are in agreement with the books of account and can be relied upon to support the disbursements made by the Bank;

ii) Verify the procurement procedures adopted in the project;

iii) Physical verification of assets acquired or created under the Project on a sample basis; and

iv) Obtain a professional opinion on the accuracy of the IUFRs and compliance with financing agreements. The audit would cover all project activities including all sources and application of funds for the project. The Auditor will visit the various field offices for achieving the objective.

III. SCOPE

8. The audit will be carried out in accordance with the general principles and standards of audit laid down by the Institute of Chartered Accountants of India and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention should be given to the following:

a) That, all project funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to transparency, economy and efficiency and only for the purposes for which the financing was provided.

b) That, goods & services financed have been procured in accordance with relevant financing agreements and as per the World Bank guidelines for procurement of goods, works & services.

c) That, all expenditures incurred by the PEAs have been authorized by the State Project Monitoring Units (SPMUs).

d) That, the Financial Statements (monthly, quarterly & annual) submitted to the SPMU by the PEAs reflect the actual, true & fair expenditures incurred by them.

e) That, all necessary supporting documents such as records, vouchers, bids, bidding documents, etc. and books of accounts have been kept in respect of all project procurements & expenditures including

beneficiary / community contributions and expenditures covered by IUFRs.

f) That, clear linkages exist between the books of accounts / IUFRs maintained by PEAs and the reports submitted to the SPMU / World Bank / GOI.

g) For works activities ensure that there is adequate linkage between measurement books and contractors' running bills (duly approved by the competent authorities). The contractors' ledger is updated and all statutory deductions and mobilization advances recovered while making payments. A sample of works may be physically verified & pictorial evidence of the works inspected should be attached with the report.

h) That, the assets sanctioned and created under the Project have been actually created, that proper record in the form of an Asset Register showing details of cost, identification location and custodian is maintained and that the Physical Verification of the asset is being carried out and they have been put to use for the purpose for which they were created. Auditors shall verify a sample of assets procured and created under the project including assets provided to community groups.

i) To verify that the advances given to the community groups are as per MoU with the Community. To further verify that proper records at the PEAs are maintained for advances given to the Community groups.

j) That, the IUFRs give a true and fair view of the financial situation of the project for the quarter under audit and of the sources and expenditures for that quarter.

9. The audit will be carried out on a regular basis and the auditor will conduct interim reviews for each of the quarters ending 30th June, 30th September, 31st December & 31st March.

10. The interim review would focus on: (i) operation of the financial management system and internal controls; (ii) transactional review of expenditures incurred by all PEAs, (iii) physical verification of selected assets acquired & created (iv) monthly / quarterly/ annual MIS prepared from the financial records.

11. The auditor is required to audit all IUFRs used as a basis for the submission of withdrawal applications to the World Bank for reimbursement of project expenditures. The auditor shall apply such tests and controls, as the auditor considers necessary under the circumstances. These expenditures should be carefully examined for the project eligibility with relevant financing agreements, and with reference to the Project Appraisal Document (PAD), Procurement Plan approved by the World Bank and Project Cost Tables approved by the World Bank. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed by the World Bank, these should be separately noted and listed by the auditor.

12. Whether the reimbursement claims submitted during the year for withdrawals from the IDA Credit (made on the basis of IUFRs), together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

13. **Audit Report:** The audit report should *inter alia* include:

    a) Comments & observations on the accounting records, systems and controls that were examined during the course of audit;

    b) Identify specific deficiencies and areas of weakness in systems & controls and make recommendations for their improvement;

    c) Report on the degree of compliance of each of the financial covenants on the financing agreements and give comments, if any, on internal and external matters affecting such compliance;

    d) Communicate matters that have emerged during the audit which might have a significant impact on the implementation of the Project; and

    e) Bring to the State Project Director's (SPD) attention any other matter that the auditor considers pertinent.

IV. REPORTING

14. **Reporting**: Reporting by the consultant shall be done as per details given hereunder:

a) ***Draft Report (3 copies)***: The Auditor will provide a draft report to the NPMU / SPMU within 60 days of the end of the each quarter, highlighting findings during the interim audit, to enable the project management to take timely action. The auditors should submit a draft copy of their report to the SPMU before finalization. The SPMU will submit its response, if any, within 21 days (3 weeks) of receipt of the draft report.

15. ***Final Quarterly Report (3 copies)***: The auditors should submit the final copy of their report to the NPMU / SPMU after receiving comments from respective agencies within the above specified time period. If no response is received by the auditors within the said time, the auditors should finalize the related report and submit the same within a week thereafter to the SPMU.

16. The auditor should submit soft copies of the audit report in a CD in the pdf format to the NPMU / SPMU.

17. The auditor shall complete the assignment as per the time schedule to be mentioned in the agreement. A penalty clause will be included in the agreement to safeguard NPMU/ SPMU's interest.

V. COVERAGE & TIMING OF THE QUARTERLY REVIEW

18. The quarterly review will be carried out based on the Annual Audit Plan which will reflect the PEAs with higher expenditure / PEAs with higher risk. Internal Audit will cover all project activities in a manner that all PEAs are covered at least once a year. An annual audit plan will be

prepared by the auditor in consultation with the NPMU/ SPMU. The auditor will also make Compliance Review at SPMU / NPMU in a combined meeting with all PEAs.

VI. KEY PERSONNEL

19. Since it is a project which is implemented within the Government, it is a pre-requisite that the key personnel should be familiar with general financial and treasury rules & procedures, including government accounting and financial procedures. The list of key personnel being part of the audit team per State is as under:

S.No.	Key Professionals	Description of Services to be provided	Experience	No. of persons	Total Man months per year
1	Partner/ Audit Manager	Overall coordination, & planning, team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 15 years experience as a partner with expertise in the area of internal audit planning, execution and reporting.	1	1
2	Audit Team Leader	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with SPMU / PEAs and report writing and finalization.	Qualified Chartered Accountants with at least 5 years experience in internal audit with ability to lead and team and interact with senior level govt officials	1	4
3	Team Member	Field level audit of works departments - (mainly relating to civil works)	Person with experience in works accounting & audit procedures and PWD codes etc	1	3
4	Team Member	Field level audit of line departments including community groups and sample physical verifications of activities/ assets.	CA Inter with experience in internal audit and report writing.	2	15

VII. FACILITIES TO BE PROVIDED BY THE NPMU / SPMU

20. The auditor will be given access to all legal documents, financial management manual, operations manual, government orders/ circulars, World Bank Procurement Guidelines correspondence, monthly financial statements, Project Financial Statements, IUFRs and any other information associated with the project and as deemed necessary by the auditor.

21. The auditors will also be given access to all the assets selected for physical verification by the auditors.
22. No services other than those specifically mentioned in this TOR shall be extended to the auditor. The auditors shall make their own conveyance arrangements.
23. No expenditure on traveling/ boarding/ lodging expenses (TA/DA etc) will be borne by the NPMU/ SPMU separately and the consultant shall include such costs in his proposal.

VIII. TENURE

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