

TERMS OF REFERENCE For Internal Audit

1. SCOPE OF SERVICES:

The internal 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 is as per the approve work plan .
- 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 IUFs.
- f. That, clear linkages exist between the books of accounts / IUFs maintained by PEAs and the reports submitted to the SPMU
- g. For works contracts, the internal auditors shall verify from the records of the PEAs' and /or SPMU 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. Internal auditors shall ensure that a sample of works (not less than 10%) should be physically verified. By SPMU and /or Nodal Officers of PEA as well as the Monitoring and Evaluation Consultants and that evidence of such physical verification including pictorial evidence of the works inspected are properly documented by the SPMU and the monitoring and Evaluation Consultants.....

2. That, the assets sanctioned and created under the Project (including goods, works and services contracts in the project) have been:
 - a. Actually created and adequate documentation in this regard including photographic evidence is collected and properly maintained at the PEA and/ or SPMU offices: 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 earned out by PEA and SPMU and they have been put to use for the purpose for which they were created.
 - b. Internal Auditors shall verify that a sample of assets procured and created under the project is inspected and verified by the monitoring and Evaluation Consultants, and there exists a clear linkage between such inspection and/or verification and the expenditures incurred.
 - c. Verify that the advances given to the community groups or NGOs are as per the relevant MoU between PEA and the community groups, and verify that adequate proper records are maintained at PEA level for advances given to the Community groups.
 - d. Internal Auditors shall further verify that the PEA and the Monitoring and Evaluation Consultants are verifying or inspecting the assets created or activities undertaken by community groups at a reasonable sample basis, and there is a clear linkage between such verification and/ or inspection and the disbursement of advances to the community groups.
 - e. Whenever, the internal auditor identify any discrepancy between the results of physical verification of assets sanctioned and crated under the project (including goods, works and services contracts in the project) and the magnitude of expenditure incurred against each of these, they will examine such cases of discrepancy in detail, and if required will undertake (or through the SPMU State Project Director will cause to ensure) adequate physical verification of such cases at a reasonable sample basis.
3. The Internal Auditor shall carry out audit of accounting records of Community Based Organizations (CBO) on sample selection basis. The audit of CBO shall cover verification of accounting records, physical verification of assets created out of funds provided, adherence to terms and conditions of memorandum of understanding agreed between PEA and CBO. The selection of CBO shall be carried out in such a manner that at least out of total active CBO, 20% are covered for internal audit during each quarter. That, the IUFs 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.

4. 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. The assignment period would be **1st April 2016 to March 2017** (Four Quarters) The assignment would be reviewed after March-2017 considering the work load and contract shall be extended up to December -2017 taking in to account reduced scope of work by mutual consent.
5. Based on the internal audit, the Auditors shall prepare and submit Quarterly Interim Review Reports. The Quarterly Interim Review Reports will include the following :
 - i) An executive summery highlighting key issues, weakness and way forward.
 - ii) Specific comments about whether the IUFs reflect a correct position of the-financial situation of the project for the quarter under internal audit and of the source and expenditure for that quarter; The internal audit examination of the IUF shall cover (i) whether expenditure are eligible under the financing agreements and in reference to the project appraisal document (PAD),the procurement plan and the project cost tables;(ii) whether the IUF includes expenditures which in the opinion of the internal Auditors are ineligible expenses for the purpose of the project, including specific discussion on each such expenditure as to why these are considered ineligible expenses. For the examination of the IUF, the internal Auditors will apply such test and controls, as the internal Auditor considers necessary under the circumstances.
 - iii) Comments as to whether the reimbursement claim submitted during the year for withdrawals from the IDA credit (made on the basis of IFURs), together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.
 - iv) Comments and observations on the accounting records, systems and controls that were examined during the course of the internal audit for the relevant quarter;
 - v) Verification that monthly/ quarterly/ annual MIS prepared from the financial records is adequate.
 - vi) Comments 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;

- vii) Recommendations to address specific deficiencies and weakness that had been indentified in systems and controls;
 - viii) Comments on whether and how the suggestions for improvements from earlier internal audit reports had been incorporated by SPMU and PEAs.
 - ix) The physical verification or inspections of assets acquired or created under the Project (through works, good, services and community contracting) on a reasonable sample basis is adequately undertaken and documented by SPMU and or PEAs as well as the Monitoring and Evaluation Consultants; that such documentation is maintained in the SPMU adequately. Internal Auditors will prepare a brief summary of such records of inspection and /or verification, and such attach with the quarterly interim Review Reports.
 - x) Description of matters that have emerged during the audit which might have a significant impact on the implementation of the project; and
 - xi) Any other comments and/ or recommendations considered important by Internal Auditors that would need the attention of the SPMU's and the State Project Director of SPMU.
6. An annual audit plan will be prepared by the auditor in consultation with the SPMU. The audit will cover all the PEA's at least once a year and further based on the concept of risk and materiality as discussed with SPMU.
7. The Internal Auditor will attend the periodic audit committee meetings organized by the SPMU and attended by all PEAs provide technical support to SPMU on the ways to implement the recommendations of the Internal Audit Reports and record the decisions of the Audit Committee (to be summarized in the quarterly Internal Review Report)

Note-

Under ICZM project most of the works in case of works, Goods, and consultancies have been either completed OR in final stage of completion. In case of CBO internal audit, very few works are remaining. Therefore the consultants are advised to take note of reduced scope of work, assess the quantum of work load and quote the rates accordingly. The consultants shall have to carry out at their own survey to assess audit work load by visiting SPMU.

Reporting Requirements

Sr. No.	Contents	To be submitted	Frequency	Time Line
1	Draft Internal Report including findings/ observations during the routine audit	State Project Management Unit and Project Executing Agencies	Quarterly	Within 15 days from the end of quarter (Allowing 15 days time to respond)
2	Final Internal Audit report including summery of unsolved observations/ remarks		Quarterly	Within 45 days from the end of quarter
3	Presentation to the Audit Committee	Audit Committee	Quarterly	During Meeting

Payments Schedule: for Four Quarters

Deliverable	Payment
Submission & Approval of Final Audit Report for Quarter 1 of F.Y. 2016-17 by 14 th August 2016	1/4 th of Contract Value
Submission & Approval of Final Audit Report for Quarter 2 of F.Y. 2016-17 by 14 th November ,2016	1/4 th of Contract Value
Submission & Approval of Final Audit Report for Quarter 3 of F.Y. 2016-17 by 14 th February, 2017	1/4 th of Contract Value
Submission & Approval of Final Audit Report for Quarter 4 of F.Y. 2016-17 by 14 th May, 2017	1/4 th of Contract Value

Key Personnel and Sub Consultants

The list of Professional Staff being part of the audit team is as under:

Sr. No.	Key Professionals/ Area of Expertise	Experience	Description of Services to be provided
	Audit Manager/ In charge of Audit Department	Qualified Chartered Accountant with at least 15 years experience as a partner with expertise in the area of internal audit planning, execution and reporting.	Overall coordination, & planning, Liaison/ discussion with head of the department SPMU / PEAs Presentation before Audit Committee
	Audit Team Leader/ Statutory and Internal Audit	Qualified Chartered Accountants with at least 5 years experience in internal audit with ability to lead the team and interact with senior level government officials	Responsibility to lead the audit teams in the field Planning and execution of the audits, Review of Internal Control System to ensure compliance with legal and regulatory mechanism Report writing and finalization.
	Team Member/ Audit	Person with experience in works accounting & audit procedures and PWD codes etc	Field level audit of works departments - (mainly relating to civil works) Verification of Records at SPMU/ PEAs Compliance of draft Internal audit Report
	Team Member/ Audit	CA Inter with experience in internal audit and report writing.	Field level audit of line departments including community groups and sample physical verifications of activities/ assets.