

Draft Terms of Reference for External/ Statutory Auditors of BRLPS

1. Background

Government of Bihar is implementing multiple projects funded by the World Bank, /Govt of India through Bihar Rural Livelihoods Promotion Society (BRLPS). BRLPS has been set up by the Government of Bihar as part of its strategy to address rural poverty through enhancing the livelihoods of the poor. BRLPS is an independent and autonomous institution registered under the Society Registration Act, 1860. The strategy highlights building of pro-poor local institutions/ groups through nurturing institution of the poor by supporting formation, strengthening and empowering self-managed community organizations and adopting demand responsive and participatory processes. BRLPS also facilitates participation of poor and the disadvantaged in forming producer cooperatives and groups around key commodities – non-farm products and services.

2. Objectives of the Society-

The objectives of Society inter alia include:

- To contribute to the lives of rural poor across the state of Bihar through empowering and fostering strong self managed grass root institutions and support investments by groups of poor.
- To promote microfinance institutions in order to deal with development of rural poor by way of providing financial assistance and obtaining commercial funding or by way of refinancing under the guidance of state level society with overall objective of developing microfinance sector in Bihar.
- To support village governance in becoming more responsive and effective in delivery of services and assisting rural poor specially the women.

3. Project Scope & Components

In the year 2011 BRLPS has been nominated as nodal agency for the implementation of NRLM in the state of Bihar. Out of total 38 Districts, 14 districts and 234 Blocks are under NRLM and remaining 24 Districts and 300 Blocks are under BTDP to cover around 1.25 Crore families in 44874 villages.

Besides the above, there is another scheme covered under LSBA (Lohiya Swachh Bihar Abhiyan) for implementing the SBM-G, LSY etc. BRLPS has been designated as nodal agency, since 2016. This scheme is implemented in all the 38 Districts of Bihar through DRDAs/ JEEViKA. The main schemes under LSBA are-

- a) SBM-G - (Swachh Bharat Mission- Grameen),
- b) NNP / LIS – (Neer Nirmal Pariyojana),
- c) LSY – (Lohiya Swachhta Yojana), and
- d) GAP – (Ganga Action Plan)

4. Implementation Arrangement

The Bihar Rural Livelihoods Promotion Society under the administrative Control of Rural Development Department, Govt. of Bihar is led by its General Body, from which a more functional Executive Committee has been formed for taking all policy level decisions and advising the functionaries over the management of Bihar Rural Livelihoods Promotion Society. Representatives from the Government of Bihar, civil society, private sector, banks, academia, and developmental institutions form the executive committee of the Society.

State Level: At the state level, the **State Project Management Unit (SPMU)** has been formed and staffed with a team of dedicated development professionals. The projects and the society are headed by **Chief Executive Officer**.

District level: The District Project Manager heads the DPCU with primary responsibility of Coordinating with their Blocks for effective implementation and convergence with ongoing Government Program in the district.

Block Level: The Block Project Manager heads the BPIU and is responsible for implementing the projects in concerned BPIU. BPIU will work very closely with the CBOs.

At the community level the project will be implemented through the following community-based institutions:

- a) Self Help Groups
- b) Village Organizations (federation of a group of SHGs)
- c) Cluster Level Federation (federation of Village Organizations).
- d) Producers' companies/Producers Groups.

Besides above, schemes under LSBA has been implemented by DRDAs through Blocks, whereas only 38 Blocks of Bihar are implemented by JEEViKA. The Auditors will have to visit the concerned DRDAs/Block offices during the course of LSBA Audit.

5. Objectives of Audit

The objective of the audit is to ensure that the Society receives adequate independent, professional audit assurance that the proceeds of funding agencies were used for the purposes intended, that the annual project financial statements/consolidated financial statements are free from material misstatement and that the terms of the funding agencies were complied with in all material respects.

The objective of the audit of the Project Financial Statement (PFS) and consolidated Financial Statements (CFS) of the Society is to enable the auditor to express a professional opinion as to whether

1. The PFS/CFS of the Society gives a true and fair view of the sources and applications of project funds for the period under audit examination;
2. The funds were utilized for the purposes, for which they were provided,
3. The procurement procedures prescribed in the Procurement Manual of BRLPS and in case of LSBA, the relevant rules/regulations/guidelines of Govt. of Bihar have been followed;
4. Expenditures shown in the PFS/CFS of the Society are eligible for financing/funding under the relevant agreement with the funding agencies.

In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports submitted by project management units may be relied upon to support any application for withdrawal from the agreement with the Financing/funding agencies.

The books of account that provide the basis for preparation of the PFS / CFS of the Society are established to reflect the financial transactions of the projects/ Society and are maintained by BRLPS and its constituent state, district and block level units.

6. Audit Standards

The audit will be carried out in accordance with the Auditing Standards issued by the Institute of Chartered Accountants of India. The auditor should accordingly consider materiality when planning and performing the audit to reduce audit risks to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud or the use of credit/loan/grants proceeds for purposes other than as defined in the legal agreement remains with the Society/borrower. The audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

7. Audit Scope

In conducting the audit, special attention should be paid to the following:

- All external funds including fund received from Ministry of Rural Development and the line departments i.e. RDD, GoB, Animal Husbandry and Fish Resource Department/ Agriculture Department/ Panchayati Raj Department etc and other Funding agency viz. NABARD/UNICEF etc. including its all verticals have been used in accordance with the conditions imposed by the funding agencies/relevant legal agreement and only for the purposes for which the financing was provided. Relevant legal agreements include the Financing Agreement and the Project Agreement.
- Effective project financial management systems including internal controls were in operation throughout the period under audit examination. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls and any need for revision thereof; level of compliance with established policies, plans and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; verification of assets and liabilities and integrity, controls, security and effectiveness of the operation of computerised system;
- Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- All necessary supporting documents, records, and accounts related to the society have been kept in respect of all project transactions including expenditures reported via Interim unaudited Financial Reports (IUFs) wherever applicable. However, documents, records and accounts related to LSBA shall be made available by the concerned DRDAs, Blocks and SPMU. Clear linkages should exist between the books of account and reports presented to the Funding Agency; certification of IUF and financial report reconciliation.

- The project accounts have been prepared in accordance with the accounting principles defined in the Project Financial Manual and give a true and fair view of the financial position of the project at the end of financial and of resources and expenditures for the Financial Year ended on that date; and
- Goods and services have been procured in accordance with the procurement procedure prescribed in the Procurement Manual as well as World Bank guidelines/Funding agency procurement guidelines and financing agreements - (Annexure IV for the suggested checklist to be used)

❖ Tax audit of the Society for the financial year 2018-19.

Auditor will submit all Audit report **in prescribed format separately such as BTDP Audit Report/NRLM Audit Report/LSBA Audit Report /Consolidated Society (BRLPS) Audit Report etc.** which is applicable to the BRLPS and required by statutory authority/World Bank/External agency i.e. Govt of India/multiple funding agencies.

8. Project Financial Statements.

Project Financial Statements should include:

- a) Project wise and Consolidated Receipts & Payments Account, Income & Expenditure Accounts and Balance Sheet of the society.
- b) Project wise Reconciliation of Claims to Total Applications of Funds.
- c) Other Statements or Schedules which may include:
 - A separate list of cumulative project expenditures by Project Component/Sub-components;
 - Project wise detailed list of assets created or purchased from respective project funds.
- d) Management Assertion: -
Management should sign the project financial statements and provide a written acknowledgement of its responsibility for the preparation and fair presentation of the financial statements and an assertion that project funds have been expended in accordance with the intended purposes as reflected in the financial statements. An example of a Management Assertion Letter is shown at *Annexure I*.

9. Statements of Expenditures and Financial Management Reports

In addition to the audit of the PFS (Project financial statement), Consolidated Financial Statement of Society, the auditor is required to audit all Interim Unaudited Financial Reports (IUFRs) for withdrawal applications made during the period under audit examination. The auditor should apply such tests as the auditor considers necessary under the circumstances to satisfy the audit objective. In particular, the expenditures have to be carefully examined for project eligibility by reference to the relevant financing/funding agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor.

An audit report on the project financial statements/consolidated financial statement of the Society should be prepared in accordance with the Auditing Standards promulgated by the Institute of Chartered Accountants of India. Those standards require an audit opinion to be rendered related to the financial statements taken as a whole, indicating unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion. In addition, the audit opinion paragraph will specify whether, in the auditor's opinion,

- (i) The funds were utilized for the purposes, for which they were provided,
- (ii) Expenditure shown in the PFS/CFS of the Society are eligible under the financing /funding agreement and, wherever applicable,
- (iii) The IUFRs/FMRS submitted during the period are supported by adequate detailed documentation maintained in the project accounting offices.

An audit report of the Society under the Income Tax Act will be submitted in three copies in addition of Audit report of the Society and multiple funds. A sample audit report wordings are shown at Annexure-II

10. Management Letter

In addition to the audit report on the project financial statements, the auditor will prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination, possibly including matters such as the following:

- Observations on the accounting records, systems, and controls that were examined during the course of the audit

- Deficiencies or weaknesses in systems and controls, together with specific recommendations for improvement
- Compliance with financial covenants in the financing agreements
- Matters that might have a significant impact on the implementation of the project
- The status of recommendations from previous management letters, including any issue which remain to be addressed and any issue which recurred
- Any other matter that the auditor considers pertinent.
- A sample covering letter that could be used to transmit a management letter is shown at Annexure III

11. Period, Timing and Sample Coverage of Statutory Audit

The statutory audit will be done for financial year 2018-19. The auditors should prepare their financial proposal figures, based on the volume of work as stated below:

The audit will be carried out on a yearly basis as under.

| Unit | No. of Units in 2018-19 |
|-------|-------------------------|
| SPMU | 01 |
| DPCUs | 38 |
| BPIUs | 534 |
| DRDAs | 38 |

It is expected that auditor will verify CIF (community investment fund) with recommendations of LCM, CIF guidelines/triggers for the release of CIF to communities based organisations (CBOs) and its compliance, CIF Register MOU with CBOs and UCs. Adjustment of advances to CBOs under CID component will be verified with monthly Receipt and Payment statement submitted by CBOs.

Timing:

The audit would be carried out annually and the report should be provided to the SPMU latest by 31st July, each year to facilitate approval and placement before the Executive Committee and submission to the Funding /Financing Agencies by 31st August each year. The auditor must submit five copies of the audited accounts and audit report to CEO at State office (SPMU) in time.

Period of Appointment:

The auditor will be appointed for a period of one year for the financial year 2018-19 and may be further extended for two more years. In no case, one audit firm will be appointed as statutory auditor for more than three continuous financial years without participating in the bidding process.

Review of the final draft Report:

Final draft report may be reviewed to assess whether auditor delivered all reports and documents specified in the contract, in the form and manner and within the time period as specified; Assess whether the reports and documents are easily understandable or not; Has the auditor satisfied the expectations of service quality, such as adequacy, applicability, effectiveness, innovativeness and impartiality; to examine whether auditors are covering the scope of work and achieving the objectives of assignment set forth in the description of service mentioned.

12. Key Personnel

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

| S.N. | Key Professionals | Description of Services to be provided | Experience | No. of persons | Total Expected Man days |
|------|------------------------|---|--|----------------|-------------------------|
| 1 | Partner/ Audit Manager | Overall coordination, & planning, team leadership, reporting, liaison with client | Qualified Chartered Accountant with at least 10 years experience as a partner with expertise in the area of statutory audit planning, execution and reporting. | 01 | 15 |

| S.N. | Key Professionals | Description of Services to be provided | Experience | No. of persons | Total Expected Man days |
|--|-------------------|---|--|----------------|-------------------------|
| 2 | Audit Team Leader | Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at Block /district / state units and report writing and finalization. | Qualified Chartered Accountants with at least 05 years experience in Statutory audit with ability to lead the team & expertise in the area of statutory audit planning, execution and reporting. | 03 | 180 |
| 3 | Team member | Audit of SPMU and Field level audit of DCPU, BPIU. | CA (Inter) with 02 years of experience in Accounting ,audit and report writing | 12 | 720 |
| Total Expected minimum Man days | | | | | 915 |

The audit firm should provide CVs of key personnel who are expected to be engaged in audit work for evaluation purpose by BRLPS.

The audit firm will ensure minimum expected man days for audit.

13. General

The auditor should be given access to any information relevant for the purposes of conducting the audit. This would normally include all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. The information made available to the auditor should include, but not be limited to, copies of the Bank's Project Appraisal Document, the relevant Legal Agreements and copy of Guidelines, a copy of the project financial manual and devolution of power. Project will provide relevant documents, if any, required by the auditor.

Example of a Management Assertion Letter

(Project Letterhead)

(To Auditor)

(Date)

This assertion letter is provided in connection with your audit of the financial statements of the _____ Project for the year ended _____. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the cash basis of accounting followed by the Government of India, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

- The project financial statements are free of material misstatements, including omissions.
- Project funds have been used for the purposes for which they were provided.
- Project expenditures are eligible for financing under the Loan/Credit agreement.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.
- Procurement procedures as prescribed for the project have been followed.
- We have made available to you all books of account and supporting documentation relating to the project.
- The project has complied with the conditions of all relevant legal agreements, including the Financing Agreement, the Project Agreement, the Project Appraisal Document, and the Project Implementation Plan.

(Chief finance officer)

(State Project Director/CEO)

Model Audit Report - Unqualified Opinion

Addressee-

Introductory Paragraph

We have audited the accompanying financial statements of the BRLPS Project [under World Bank Loan No. _____/IDA as of March 31, 20XX [any other additional years necessary] for the year(s) then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope Paragraph

We conducted our audit in accordance with Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion Paragraph

In our opinion, the financial statements give a true and fair view of the Sources and Application of Funds and the financial position of BRLPS Project for the year ended March 31, 20XX, in accordance with relevant national standards. We are also satisfied that the procurement procedure prescribed in the Procurement Manual under BRLPS has been followed.

In addition, (a) with respect to IFRs adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) which expenditures are eligible for financing under the Loan/Credit Agreement the IUF submitted and procedure and internal controls involved in their preparation can be relied upon to support the withdrawals.

[Name and Address of Audit Firm]

[Date — Completion Date of Audit]

[Auditor's Address]

[Date]

**Example of a Management Letter
(Audit firm Letterhead)**

(Date)

To Project Management,

In connection with our audit of the financial statements of the BRLPS Project for the Year ended _____, we familiarized ourselves with Project documents, the internal guidelines and circulars applicable during the period under audit. We also reviewed the business of the Project and evaluated the accounting systems and related internal controls of the Project in order to plan and perform our audit.

This Letter to Project Management includes observations noted during the course of our audit examination in the following areas:

- Matters having a significant impact on the implementation of the Project
- Opportunities for strengthening financial management records, systems and controls, together with recommendations for improvement
- Status of maintenance of Project books and records
- Accuracy of Project financial statements
- Compliance with prescribed procurement procedures
- Status of prior audit recommendations

The matters contained in this Management Letter are intended solely for the information of Project management, for such timely consideration and action as Project management may deem appropriate. They have all been considered by us in formulating the audit opinion expressed on the project financial statements in our audit report dated _____ and they do not alter the opinion expressed in that audit report.

We wish to take this opportunity to thank Project Management for the courtesies and cooperation extended to our auditors.

Yours truly,

(Name and Title)

Suggested Procurement audit check list related to Goods/Works

Once contracts for goods/works have been selected for detailed audit review the following check list / post review check list may be followed:

- 1) Date of audit.
- 2) Procurement by State/District/any other organization receiving project funds.
- 3) Description of items procured, quantity and estimated value.
- 4) Whether procedure laid down in the Manual was observed while procuring goods and works?
- 5) If not, any other, justification was available?
- 6) Whether bid was advertised/placed in public domain?
- 7) Whether sufficient time was given to bidders for preparing and submitting the bids?
- 8) Whether the bids were opened at the notified time in the presence of bidders?
- 9) Whether the bids were evaluated in terms of the provisions of the bid documents and the evaluation report was available?
- 10) Whether contract was awarded to the lowest evaluated responsive bidder fulfilling the qualification requirements indicated in the tender document?
- 11) Whether the contract was awarded within original bid validity period?
- 12) Whether the signed copy of the contract/purchase order was available?
- 13) Whether articles received/work completed in time?
- 14) Whether payment released timely to the supplier/contractor or valid reasons for delay?
- 15) Whether the assets procured are accounted for?
- 16) Whether any complaint was received regarding the procurement and was addressed?
- 17) Whether procurement related complaint handling mechanism as envisaged in the Project Implementation Plan is available?
- 18) Whether any procurement related irregularities reported in the previous audit report have been complied with?
- 19) Whether Performance Security was sought?

Procurement audit check list related to Service Contract

Once service contracts have been selected for detailed audit review the following check list may be followed:

- 1) Date of audit
- 2) Procurement by State/District/any other organization receiving project funds
- 3) Whether the Terms of Reference covering the scope of work, time schedule, out put required, etc were prepared?
- 4) Whether the Expressions of Interest were checked against advertisement and short list of service providers/consultants prepared?
- 5) Whether the Request for Proposals (RFPs) was issued to short listed service providers/ consultants?
- 6) Whether sufficient time was given to service providers/consultants for preparing and submitting the proposals?
- 7) Whether the proposals were invited in two separate envelopes, one containing technical and another for financial proposals?
- 8) Whether the evaluation was done in two stages, first the evaluation of technical proposals and then opening of the financial proposals of only technically qualified service providers/consultants and reports are available thereof?
- 9) Whether the contract was awarded within the validity period of the original proposal?
- 10) Whether the signed copy of the contract was available?
- 11) Whether the services were completed within the prescribed time limit or valid reasons for delayed completion?
- 12) Whether payment was released timely to the service providers/consultants or valid reasons for delay?
- 13) In the case of single source selection, if there was justification for the purpose?
- 14) Whether any complaint was received regarding the procurement and was addressed?
- 15) Whether procurement related complaint handling mechanism as envisaged in the Project Implementation Plan is available?
- 16) Whether any procurement related irregularities reported in the previous audit report have been complied with?