

TERMS OF REFERENCE FOR THE EXTERNAL AUDIT OF PROJECT FINANCIAL STATEMENTS For 2014-15

INTRODUCTION

State Water and Sanitation Mission, Uttar Pradesh (SWSM), Uttar Pradesh is a registered society under the Society Registration Act 1860. Rural Water Supply and Sanitation Project -LIS (RWSSP_LIS) would be implemented through a special window of assistance under NRDWP. NRDWP is a flagship programme of MoDWS of India

The project (RWSS-LIS) cost will be funded through Technical Assistance of International Development Association (IDA) and Go! financing from NRDWP funding and the State Govt. funding. Overall World Bank will financing 50%, Go! 33%, state Govt. contribution 16% & community contribution will be 1% of the total project. The purpose for which the funds are intended is to improve the Rural Piped Water Household wise Coverage integrated with Sanitation services through decentralized services delivery system

Project is to be implemented over a period of 6 years.

Objective

The essence of the World Bank audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank credit were used for the purposes intended, that the annual project financial statements are free from material misstatement, and that the terms of the credit agreement are complied with in all material respects. The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion as to whether(!) the PFS present fairly, in all material respects, 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, and (3) expenditures shown in the PFS are eligible for financing under the relevant loan or credit agreement.(4) The procurement procedure prescribed in the project manual has been followed. In addition, where applicable, the auditor will express a professional opinion as to whether the Interim Unaudited Financial Reports (IUFs) submitted by project management may be relied upon to support any applications for withdrawal, and whether adequate supporting documentation has been maintained to support claims made by project management for reimbursement of expenditures incurred.

The books of accounts that provide the basis for preparation of the IUFs are established to reflect the financial transactions of the project and are properly maintained by the implementing units.

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 risk 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 proceeds for purposes other than as defined in the legal agreement remains with the borrower, the audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

Scope

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

- (a) All external funds have been used in accordance with the conditions of the relevant legal agreements and only for the purposes for which the financing was provided. Relevant legal agreements include the Financing Agreement, the Project Agreement, and the Minutes of Negotiations;
- (b) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- (c) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via IUFRRs where applicable. Clear linkages should exist between the books of account and reports presented to the Bank; and
- (d) The project accounts have been prepared in accordance with consistently applied Accounting Standards and present fairly, in all material respects, the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.
- (e) Goods, Works, Services & Non-Consulting Services financed have been procured in accordance with the procurement procedure prescribed in the procurement manual as well as World Bank guidelines & financing agreements.
- (f) Tax audit of the project for the audit period.

Project Financial Statements

The Project Financial Statements should include-

- a. Statement of Sources and Applications of Funds: The contents of Project Financial Statements (PFS) are specific to the sector, the project design and the type of implementing entity. These formats therefore vary from one Project to another. The formats of PFS are prepared in consultation with the implementing entity during the preparation of the Project. (In this case Project Financial Statements will comprise consolidated Balance Sheet, Receipts and Payments Accounts and Income and Expenditure Account of the Project for the State i.e. comprising SPMU, DPMUs, MVWSCs and GPWSCs accounts). The Annual Financial Statements should include Notes to Accounts stating the Significant Accounting Policies.
- b. Reconciliation of Claims to Total Applications of Funds. The PFS include reconciliation between expenditure reported as per the Income and Expenditure Account and expenditure claimed from the World Bank through IUFRRs

- c. Other Statements or Schedules as may be applicable in particular circumstances
 - i) A statement showing appropriate heads of receipt and expenditure (as given in the IUFRR 2 & 3)
 - ii) Contract-wise details of all Multi Village Schemes and district-wise summary of Single Village/Single Habitation Schemes (as per attached format)
- 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 Appendix I.

The auditor should ensure reconciliation of the Annual Project Financial Statements with the four quarterly IUFRRs submitted to the Bank. The auditor should apply such tests as the auditor considers necessary under the circumstances to satisfy the audit objective. In particular, these expenditures should be carefully examined for project eligibility by reference to the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor.

Audit Report

An audit report on the project financial statements 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, (a) with respect to IUFRRs adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to the audit report, expenditures are eligible for financing under the Loan/Credit Agreement.

Management Letter

In addition to the audit report on the project financial statements the auditor may 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 which do not affect the audit opinion but are required to be brought to the management's attention.

Where a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank. Else, a written advice may be made that no management letter was prepared together with the audit report on the project financial statements. Observation on accounting records, system & control that were examined during the course of audit
Deficiencies or weakness in system and control together with specific recommendation for improvement

PERIOD, TIMING AND SAMPLE COVERAGE OF STATUTORY AUDIT

The statutory audit will be done on yearly basis for the year 2014-15. The audit should prepare financial proposal on the figure based on the volume of work as stated below: -

The audit will be carried out on a yearly basis coverage for the year 2014-15 as under:

1- SPMU 1 Rs. 249.09 Lakhs.

2- DPMU 9 : Allahabad – Rs.3.90 Lakhs, Bahraich Rs. 0.55 Lakhs , Ballia Rs. 0.55 Lakhs, Basti Rs.0.55 Lakhs, Deoria Rs. 0.55 Lakhs, Ghazipur Rs. 0.55 Lakhs, Gonda 0.61 lakhs, Gorakhpur Rs. 0.55 Lakhs, Kushinagar Rs. 0.55 Lakhs

3-MVWSC13 (Approx.) -Expenditure -Nil

4-GPWSC 19 (Approx.) -Expenditure Nil_On sample basis.

5- UP Jal Nigam (HQ) – (World Bank Cell) Rs. 1010.05 Lakhs

The sample will be selected based on expenditures incurred, risk profile of the GPWSC etc. It is mandatory that the auditor visits a GPWSC at least once in the scheme construction period.

TIMING:-

The audit would be carried out annually and the report should be provided to the SPMU latest by 30th Sept each year to facilitate approval & placement. The auditor will submit Individual audit report of SPMU and 9 DPMUs, separately with copies of their respective Audited Accounts to SPMU. In addition the auditor should also submit a consolidated audit report giving a single audit opinion on the Consolidated Project Financial Statements for the entire State.

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 and the relevant Legal Agreements, It is highly desirable that the auditor become familiar with other Bank policy documents, such as OP/BP 10.02, the Bank's internal guidelines on Financial Management that include financial reporting and auditing requirements for projects financed by the World Bank. The auditor should also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor.

Team Composition and Qualification Requirement.

Minimum turnover of the firm : INR 50 lacs for the last three years.

Key Staff	Qualification & experience	Nos.	Required Man Month input	Total Man Months
Team Leader	Chartered Accountant, (FCA) With 10 years of auditing experience of large Public/Private Companies, Organisations of Central and State Govt., Banks, World Bank funded Projects, Large Institutions etc.	one	one	One

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Auditors	Two .Chartered Accountants, (ACA) With 05 years of auditing experience of large Public/Private Companies, Organisations of Central and State Govt., Banks, World Bank funded Projects, Large Institutions etc.	Two	Two Months	Four Man Months
Support Staff:	Audit Assistants	Two	Two Man Months	Four Man Months

Appendix 1

Example of a Management Assertion Letter

(Project Letter head)

(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.
- 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, the Minutes of Negotiations, and the Borrower's Project Implementation Plan.

Financial Advisor, SWSM/PFMS,
SPMU

Project Director ,
SPMU