

Terms of Reference of Internal Audit For 2015-16

State Water and Sanitation Mission (SWSM), Uttar Pradesh is a registered society under society registration act 1860. The Project Development objective is to be improve household wise piped water supply and sanitation services for selected rural communities in the target 10 Project Districts of Uttar Pradesh through decentralize delivery system and to increase the capacity of the project district to respond promptly and effectively to eligible crisis or emergency. This Rural Water Supply and Sanitation Project (RWSSP) would be implementing through a special window of assistance under NRDWP. The NRDWP is a flagship programme of MoDWS of India since 2009. The SWSM, UP supported by SPMU under the overall guidance of SWSM set up as per the NRDWP guidelines. RWSSP is funded jointly by International Development Association (IDA), Gol and Govt. of Uttar Pradesh. Overall International Development Association will finance 50% Gol will finance 33% & State will contribute 16% & Community contribution will be 1% of total project cost.

Objective

The objective of internal audit is to provide management with an independent, objective and professional assessment that implementing entity's internal control systems are operating satisfactorily. Internal audit will provide project management with information on financial risk management and controls to enable the management to take timely corrective actions, wherever necessary. The internal auditor would recommend cost-effective methods for strengthening controls to prevent or detect significant financial irregularities or losses due to insufficient attention to economy, efficiency and effectiveness in the use of project funds.

Scope:

Internal audit should play a role in assisting management in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the internal control system. In conducting the audit, special attention should be paid to assessing whether adequate controls have been established and complied with to ensure:

- a. All project 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;
- b. Project assets are adequately safeguarded and used solely for their intended purposes; and
- c. All necessary supporting documents, records, and accounts have been kept in respect of all project transactions; including expenditures reported in the Interim Unaudited Financial Reports (IUFR).

- d. Procurements for the Project have been done in accordance with the agreed Procurement procedures and guidelines.
- e. The monthly/quarterly expenditure statement submitted by the districts indicating the approved budget provision and expenditure during the month, cumulative expenditure against the activity/sub activity during the year should be reviewed in the internal audit.
- f. The procurement procedure adopted for the civil work, goods, Consultancy and Non- consultancy services should be reviewed by the internal auditor and it should be ensured that correct procedure as per World Bank procurement guideline have been followed for each procurement.
- g. It should be ensured that record of the all procurement, agreements, work/purchase order, invoices, receipts, stock register etc. Are properly maintained, duly linked and retained including expenditure reported via IUFR. The auditor should also review contract management and whether business standards for payments to contractors are being adhered to.
- i) The internal auditor should ensure that the adequate records are maintained regarding the assets created and assets acquired by the project including description, detail of cost, and identification in location of the assets. The internal auditor should carry out physical verification of a sample of assets created out of the project and comments its utilization.
- ii) Bank reconciliation have been carried out on monthly basis.
- iii) Routine errors of omission and commission noted during course of internal audit may be rectified and correct.
- iv) The auditor should ensure that assets procured or created under the project exist; adequate records are maintained and assets are adequately safe guarded and are actually used for their intended purposes.

Coverage

Specific areas of coverage of the audit will include the SPMU/DPMUs//MV-WSCs/GPWSCs etc.

The internal audit will include such tests and controls as the Internal Auditor considers necessary under the circumstances. Specific areas of coverage of the internal audit will include the following.

- An assessment of the effectiveness of and degree of compliance with the financial controls laid down in the FM and Procurement Manuals. Whether funds have been used with due regard to economy, efficiency and effectiveness and for the purposes for which they were provided.
- Whether realistic annual work plans and procurement plans are prepared and the approval process of AWP's followed as intended. Whether there are links between the AWP and Procurement Plan.
- Whether expenditures are incurred as per approved plans and variances if any are monitored, analysed and the learning used for preparing plans for subsequent years.
- Timeliness of flow funds to the spending units. Whether the fund flow

arrangements are creating any bottlenecks for implementation and if so the possible remedies.

- Whether the selection criteria for selection of GPs have been complied with
- Whether there is appropriate documentation of check measurement! inspection of works by technical agencies/80s.
- Whether contract payments have been made as per the terms of the contract. In doing so the auditors should consider the reports of the technical supervision consultants.
- Whether an appropriate system of accounting and financial reporting exists by which expenditures are properly recorded and eligible expenditures are claimed from the Bank in a timely manner. Whether adequate supporting documentation is being maintained for all project expenditures.
- Whether an adequate system is in place to ensure that goods, works and services are being procured in accordance with guidelines prescribed in the Procurement Manual.
- Whether there is an appropriate contract management system commensurate to the size and nature of the sub-project executed by the Technical Agencies/SHWSC/GPWSC/MVSWSC/GPWSC. Whether payments are being made to contractors/suppliers/consultants after due verification of deliverables and within the stipulated time limits in accordance with the contract documents by all implementing agencies.
- Whether appropriate controls as laid down in the FM/Procurement Manual are complied with for variation in contracts.
- Whether Bank balances are reconciled with the books by the SPMU/DPMU.
- All necessary supporting document, records and accounts have been kept in respect of all project activities and that clear synchronizations exist between accounting records accounts book and periodical financial reports i.e. IUFR.
- Anything else that the auditor considers pertinent.

The audit will cover all consultancy and other contracts that may be entered into by the implementation agency. Internal audit should be carried out in accordance with the auditing standards prescribed by the ICAI and will include such test and controls as the auditor considers necessary under the circumstances.

Timing

The Internal Audit will be conducted on a quarterly basis, although the auditor will not cover all spending units every quarter. Internal audit will cover the entire project on a sample basis at all levels i.e., SPMU, DPMU GPWSC, MVWSC, However the auditor need not cover samples from all types of agencies in every audit. The auditor will draw up an audit plan and decide on the sample for coverage in each quarterly audit at the beginning of the financial year in consultation with the respective management. The sample selection would be based on an assessment of the risks applicable to the operation.

Reporting

The auditor should give quarterly work plans to SPMU for conducting audit at SPMU/DPMU/MV-WSC/ GPWSC etc.

Auditor should make the audit programme plan in coordination with the accounts & finance team of SPMU.

Information about any discrepancies can be shared with the management for rectification.

During the audit the internal Audit team shall interact with management staff for any clarification.

The Internal Auditor will provide a report to the project management highlighting findings within 15 days of completing the audit to enable the management to take timely corrective action. Copies of the Internal Audit Report together with actions taken by management to address the audit observations will be submitted to the Bank

Data Services and facilities to be provided by SWSM

The internal auditor should be given access to all relevant documents (Loan Agreement and Project Agreements, Minutes of Negotiation, Project Appraisal Document, Project Implementation Plan, Bank Procurement Guidelines, M&E assessments, technical assessment, Aide-memoires and relevant correspondences, and any other information associated with the project and deemed necessary by the auditor. It is highly desirable that the auditors become familiar with Bank's Guidelines on Disbursements, Procurements and Financial Reporting. These documents will be provided to the Internal Auditor by the SPMU/DPMU.

Team Composition and Qualification Requirement

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

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