



Financial Management Manual

National Cyclone Risk Mitigation Project (NCRMP)

February 26, 2010

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Abbreviations

CAG	Comptroller & Auditor General of India
CAAA	Controller, Aid Accounts and Audit
CSS	Centrally Sponsored Scheme
DEA	Department of Economic Affairs
FA	Financial Advisor
FM	Financial Management
GFRs	General Finance Rules
GOI	Government of India
IPs	Investment Proposals
IUFR	Interim Unaudited Financial Report
MHA	Ministry of Home Affairs
MOF	Ministry of Finance
MoU	Memorandum of Understanding
NCRMP	National Cyclone Risk Mitigation Project
NDMA	National Disaster Management Authority
NIDM	National Institute of Disaster Management
OSDMA	Orissa State Disaster Management Authority
PIP	Project Implementation Plan
PIU	Project Implementation Unit
PFS	Project Financial Statement
PMU	Project Management Unit
RBI	Reserve Bank of India
SDMA	State Disaster Management Authority
TOR	Terms of Reference
UT	Union Territory
WB	World Bank

1. Background and Context

1. The Government of India has initiated National Cyclone Risk Mitigation Project ('NCRMP'), herein after referred to as the 'Project' or 'NCRMP', with a view to address cyclone risks in the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs in the coastal areas.
2. The Project has four components:
 - **Component A** – Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs.
 - **Component B** - Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs.
 - **Component C** - Technical assistance for capacity building on hazard risk management. NDMA and NIDM are the implementing agencies for this Component.
 - **Component D**- Project Management and Monitoring applicable to all implementing agencies.
3. To begin with, NCRMP is proposed to be implemented in the States of Andhra Pradesh and Orissa. Other coastal states would be considered in further phases of the Project.
4. The NCRMP shall be coordinated by a central Project Management Unit (PMU) set up at NDMA. The participating States/UTs and agencies (such as NIDM) shall set up their respective Project Implementation Units ('PIUs').
5. The PMU shall coordinate with NDMA, MHA, World Bank, CAAA and other external agencies involved. The PIUs shall coordinate with the various line departments of the State Government/UT which will be finally responsible for execution of Project work.

1.1. Scope of the Financial Management Manual

6. The PMU and the PIUs (Both State and NIDM PIU) are required to maintain financial management system including adequate accounting and financial reporting to ensure that they can provide to the Bank and Government accurate and timely information regarding Project resources and expenditure.
7. This Manual has been designed to provide guidance on matters relating to financial recording and reporting for NCRMP such that financial management for the Project is in compliance with the Project requirements. Accordingly, this manual provides the principles of financial management including standard reporting formats.

8. This manual does not prescribe procedures to be complied by other involved agencies such as the NDMA, the MHA, the World Bank, or CAAA. It also does not specify rules and procedures that the participating units are required to follow as part of routine Government procedures. For such rules, the participating units are required to refer to respective guidelines as are applicable to them. The State/UT shall continue to use their existing system for budget and account classification.

1.2. Financial Management and Operating Environment

9. Orissa has a dedicated autonomous State Disaster Management Authority (OSDMA) for undertaking reconstruction and rehabilitation work necessitated by natural calamity. In Orissa, OSDMA will act as the PIU and in Andhra Pradesh, the PIU shall be set up as an administrative department of the State Government.

1.3. Staffing at the PIUs and the PMU

10. The Project Management Unit (PMU) shall be set up at NDMA. This PMU shall be headed by Project Director, NCRMP. To discharge the finance function of the PMU, a qualified accountant along with other support staff shall be appointed. The qualified accountant along with other staff of the finance section will constitute the finance department of the PMU. The finance department of PMU shall be responsible for:
 - Overseeing the financial management arrangement of PIUs
 - Calling for budgetary requirements of PIUs under the Project and consolidating the annual budget for NCRMP.
 - Reviewing the financial progress of the Project and analysing any delay in budgeted activities.
 - Considering and allocating resources among the States under different components of the Project.
 - Consolidating financial reports submitted by PIUs i.e. quarterly Interim Unaudited Financial Reports (IUFs) and Project Financial Statements (PFSs) and submitting these to the World Bank on time.
 - Facilitating the smooth and timely flow of funds to all PIUs and providing overall guidance to PIUs in respect of financial management issues including monitoring of expenditures, audit and internal control.
 - Conducting training programme for PIUs, regularly on financial management matters.
 - Processing of invoices and payments for NCRMP (for the PMU).
 - Managing the bank account of NCRMP and cash-in-hand at the PMU. It shall facilitate smooth and timely flow of funds.
 - Coordinating with the PIUs in conducting timely audit of accounts of the Project and consolidating the reports.
 - Appointment of Internal Auditor for the PMU, approving the Internal Audit plan for NCRMP and reviewing the results of internal audit for NCRMP

- Appointment of external auditor for PMU and PIUs (where applicable)
 - Providing such information as is required by NDMA to interact with other involved agencies i.e. CAAA, MHA, World Bank etc.
11. The Finance wing of the PIU shall be staffed by a qualified accountant. He would report to the Project Director of the PIU and shall have adequate number of support staff (3-4). In addition, he shall also consider the observations of the Internal Auditor / External Auditor while monitoring the finance function. The PIU shall be responsible for the following functions:
- Preparing the budget estimates for submission to PMU and monitor the use of funds according to the approved budget.
 - Managing the bank account of NCRMP (where separate bank account is opened for the Project) and cash-in-hand and facilitate smooth and timely flow of funds.
 - Complying with the various procedures and guidelines laid down for administering the financial management system of NCRMP.
 - Processing and making payments on account of expenditure incurred under NCRMP (where PAO system is not followed)
 - Completing all necessary documentation and accounting every transaction properly.
 - Providing timely financial reports to PMU and State Government.
 - Ensuring timely conduct of internal audit and statutory audit of accounts.
 - Reviewing the financial progress of the Project and analysing for any delay in budgeted activities.
 - Appointment of Internal Auditor.

2. Budgeting

2.1. Preparation of the Annual Budget

2.1.1. Budgeting

12. Preparation of a proper budget plays an important role in the timely implementation of NCRMP. The PIUs shall ensure effective budgeting exercise each year to facilitate timely implementation of the various components of the Project. For this purpose, the PIUs shall estimate requirements of the funds for specific tasks/objectives of the Project before seeking funds from the Government of India. At the time of estimating the requirements of the funds, the PIU shall consider the priority and importance of work based on the Project guidelines and proposals submitted. Every effort should be made to link the budget with physical targets. The budget would be consistent with the annual procurement plan.
13. The budget for the NCRMP shall be provided by the MHA under its annual plan budget. A separate plan head has been provided for NCRMP under the NDMA in the annual budget of the MHA. The State Government/UT shall make sufficient provision in their budget for meeting the expenditure to be incurred under the Project.
14. The state of Andhra Pradesh will make 100% provision for project budget including the central share and the state of Orissa will make provision of 25% share of the budget for the expenditure to be incurred for Component B.

2.1.2. Administrative procedures

15. The PIUs shall prepare their budgets. After due approval of the Finance Head and the Project Director of the PIU, these budgets shall be forwarded to the Project Director at the PMU. The PMU shall make an estimate of its annual budget. It shall collate the budgets received from the PIUs and its own operating budget. The Finance Head at PMU shall prepare the consolidated budget under NCRMP and submit it to the Project Director, PMU for forwarding to the NDMA.

2.1.3. Timelines

16. The PIUs shall forward their budgets by August 31st of every year to the PMU. The PMU shall forward the consolidated budget to the NDMA by September 30th of every year.

2.1.4. Formats

17. The budgets shall be prepared such that there is a direct correlation between the budget and the physical targets. Additionally, the PIU and the PMU shall prepare an annual budget as per GoI guidelines. The PIU and PMU are expected to refer to applicable rules for the preparation of the budget and these have not been separately elaborated in this manual.

The format for preparation of budget estimates by PIU has been provided in ***Annexure 1***
The format for preparation of Consolidated Budget by PMU has been provided in ***Annexure 2***

2.2. Review and revision to budgets

18. The PIUs and PMU shall monitor the fund utilisation status on quarterly basis through the Interim Unaudited Financial Reports ('IUFRRs'). It is herein clarified that the basis of this reporting is actual expenditure by the PIU and the PMU and not the release of funds to the PMU and the PIU.
19. Based on the status of expenditure incurred during the first six months, the PIU shall submit a revised budget by August 31st of every year. The PMU shall in turn make a revised budget for its operations. Based on the feedback received, a revised budget for the NCRMP shall be prepared and submitted by the PMU, by September 30th of every year, to the NDMA.
20. While reviewing the budget for Year 2 and beyond, consideration would be paid to the variations in achieving the budget for the prior year/years.

2.3. Re-appropriations of budget

21. The PIU and the PMU is authorised to re-appropriate the budget in between the activities under the same component. However, all such cases of re-appropriation shall be pre-approved in writing by the head of the PIU and supported by sufficient and reasonable explanation. Such re-appropriation also requires a written pre-approval from the NCRMP Project Director in the PMU.

2.4. Disclosure of Annual Budget

22. Annual approved budget for the project as a whole as well individual budget of each PIU will be disclosed on the website of NCRMP.

2.5. Commitment charges

23. The Project agreement between the borrower and the World Bank usually provides for levy of commitment charges implying that if there is delay in implementation of the Project, the borrower has to pay a Commitment Charge on the un-drawn credit amount. The PIUs and PMU should ensure that effective budgetary exercise is followed leading to proper utilization of the credit and thus avoid payment of commitment charges. However, States/UT's/NIDM would share the burden of commitment charges on pro rata basis levied by the World Bank in case of delays in utilisation of funds by States/UT's/NIDM.

3. Flow of funds and disbursements

24. The NCRMP shall be implemented by the Government of India through external assistance of World Bank. Therefore the Project attracts the provisions of GoI in respect of externally aided Projects.
25. As part of this Project, the loan shall be taken by the Centre and assistance to the States shall be provided as Grant-in-aid. For this purpose, expenditure under Component A, C and D will be funded 100% by the Centre and Component B shall be funded 75% by the Centre.
26. According to the general principles relating to Grants-in-aid to State Governments / UTs laid down in the General Financial Rules, 2005 [Rule 215 (2)], every Centrally Sponsored Scheme (CSS) should be treated as a Project with time bound targets for monitoring, midterm evaluation and detailed impact studies. Apart from making provisions in the budget and releasing funds, Ministries/Departments should establish a mechanism to ensure that the funds earlier released have been effectively utilized and that the data and facts reported by the State Governments or Union Territories relating to physical and financial performance are correct. Before releasing further funds, it should also be ensured that the State Governments/UTs have the capacity to actually spend the balance from the previous years and the releases during the current year. Attention should be focused on the attainment of the objectives and not on expenditure only. A mechanism for avoiding release of large part of funds towards the end of the year should be devised and incorporated in the Scheme design itself. An evaluation mechanism should also be built into the Project, providing for concurrent reviews and applying mid-course corrections where necessary. A post-completion review of every CSS should be undertaken by the State Governments/UTs implementing the Scheme, highlighting the time and cost overruns, if any, and suggestions for formulating and implementing future schemes. This review should be kept in view while formulating new CSSs.
27. According to Rule 239 of the GFRs, 2005 which pertains to the fund flow for Central or Centrally Sponsored Projects financed from external aid, the process of disbursement of such claims by the Funding Agency shall be the same as explained in Rule 237 (i) (a) of the GFRs ***Refer Annexure 3 for details*** [This Rule explains the procedures laid down for withdrawal of funds from the loan or grant account, namely Reimbursement procedure.]. The Ministry shall get funds when demands for grants are passed in the Parliament and advised by the Budget Division of the Ministry of Finance.
28. Disbursement from the World Bank will be based on quarterly Interim Financial Reports (IUFs), which will provide information on expenditure for last quarter and forecast of expenditure for next two quarters. Therefore, the project will follow a system of 'Report Based Disbursement'. Please refer to Annexure 16, Circular dated September 2, 2008 of Aid, Accounts and Audit Division, Ministry of Finance."

The various stages of flow of funds and disbursement have been explained as follows:

3.1. Receipt/replenishment of money from the World Bank in Special Account

29. A Special Account for NCRMP will be opened with an initial advance as per the Credit Agreement executed with the World Bank. CAAA shall perform the necessary procedures for seeking replenishment of funds into the Special Account. It shall seek such information as is required from the PMU in this regard.

30. Disbursement from the World Bank will be on the basis of quarterly IUFs. Each PIU will prepare a quarterly IUF and submit to the PMU within 25 days of end of each quarter. The PMU will prepare a consolidated IUF for the project and submit it to the World Bank no later than 45 days of end of each quarter. Please refer to format of IUFs in Annexure 13, Annexure 13A and Annexure 13B. Reconciliation between IUF and annual audited financial statements of the project will be carried out annually and ineligible expenses will be recouped in subsequent disbursements.

3.2. Flow of Funds

3.2.1. Budgeting of funds for NCRMP

31. Based on the annual requirement for the NCRMP, a budgetary provision shall be made in the NDMA budget under Demands for Grants for Ministry of Home Affairs.

3.2.2. Release of funds to PMU and PIU

32. On the basis of the rules set forth in Section 3.3, the PIU and the PMU (for its own operating expenses and areas within NCRMP) shall prepare formal statements of expenditure (with supporting annexure). These statements shall be provided to the Head of Finance at the PMU for review.

33. The Head of Finance at the PMU shall use these statements to prepare a draft sanction order for release of funds. The sanction order, with recommendation of Project Director shall be forwarded to the NDMA for further processing. NDMA shall perform the necessary administrative tasks for releasing the funds to the PMU and the States.

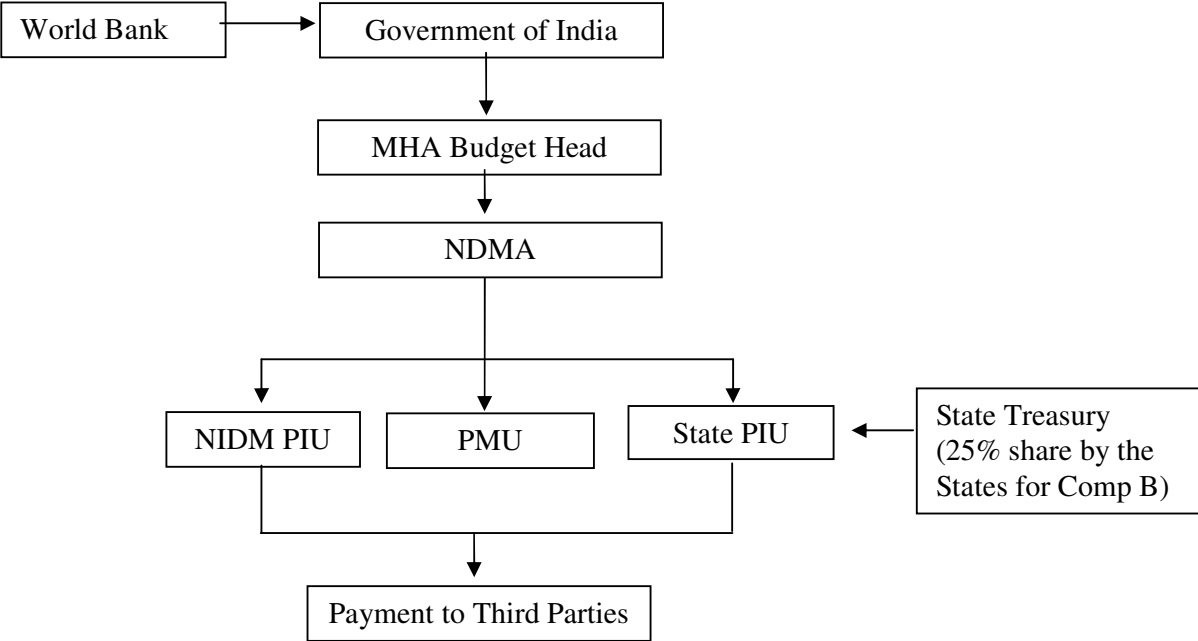
34. In case of Orissa, the central share of the Project shall be directly remitted to the PIU's separate Bank account. However in case of Andhra Pradesh, the funds would be transferred by the PAO (Pay and Accounts Office) of NDMA to the State's Treasury and the State would continue to follow the existing mechanism for management and disbursement of funds.

3.2.3. Release of funds from the PMU and the PIUs to vendors/external parties

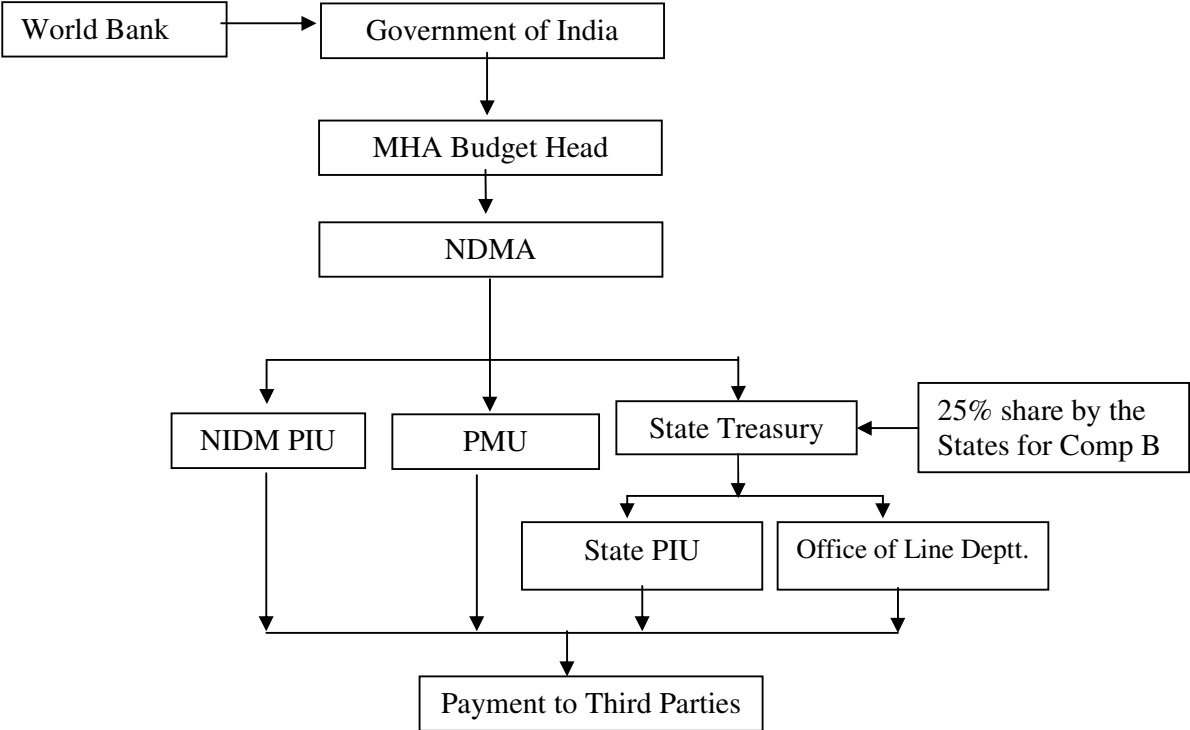
35. Based on the invoices or request for advance that have been processed, the Finance Team at the PMU/PIU shall prepare the cheque and update the accounts. The cheque /payment shall be signed in accordance with the Delegation of Authority for the PMU/PIU and released to the concerned vendor/3rd party within 2 weeks of preparation.
36. However, in case of Andhra Pradesh, the State would follow the existing mechanism (PAO system) for disbursement of payments to the vendors/external parties.

Refer diagrams on next page:

Flow of funds for NCRMP (Orissa)



Flow of funds for NCRMP (Andhra Pradesh)



3.3. Basis of release of funds to the PIUs and the PMU

37. The rules for release of funds under different components of expenditure are illustrated as follows:

Purchase of goods & equipment/civil works/services:

Frequency of Installment	Percentage of Installment	Pre-Conditions	Documents to be submitted by State/UT
Year 1			
1 st	60% (Central share)	Procurement plan and budget for the year.	Procurement plan and Budget
2 nd	Balance 40% (Central share)	To furnish reasonable evidence that 50% of the total release for the year have been disbursed. Utilisation certificate may be additionally provided.	Reasonable Evidence/ Utilisation certificate
Year 2			
1 st	60% (Central share)	Procurement plan and budget for the year. and; Submission of utilisation certificate for first installment of previous year.	Procurement plan, Budget and Utilisation certificate
2 nd	Balance 40% (Central share)	Submission of utilisation certificate for : <ul style="list-style-type: none"> • Second installment of previous year and; • 50% of utilisation of first installment of current year. 	Utilisation certificate
Year 3 and subsequent years		Similar principles as those for year 2	

38. The State Governments/UTs should submit Utilisation Certificates for the total amount (of the Central share) in respect of the expenditure incurred while submitting request for release of subsequent installment of funds. Similarly PIU-NIDM would also submit Utilisation Certificate in respect of the expenditure incurred while submitting request for release of subsequent installment of funds. *Refer Annexure 9.*

39. In addition, State Governments/UTs and MHA may conduct inspections to ascertain the progress of implementation of the Project. The release of funds should be linked to physical targets achieved in the implementation of the Project.

40. Unspent balances available with the State PIU shall be taken in to account before further releases of funds are made.

3.4. Banking arrangements

41. The PIU and the PMU shall open a separate bank account for receiving NCRMP funds and making all payments out of NCRMP funds. The bank account shall be opened as per the directives issued by NDMA/Ministry of Home Affairs in this behalf in consultation with respective State Governments.

42. However the State of Andhra Pradesh would not open a separate bank account for the Project and would continue to follow the existing treasury accounting and payment mechanism .
43. The PMU shall keep track of the funds received from the World Bank and amount released to States/UTs.

3.5. Retroactive Financing

44. Expenditure may be initiated prior to the World Bank's approval of the Project. In such a case, the expenditure shall be eligible for retroactive financing provided that Bank's procurement procedures are complied with. In such a case, the following rules will generally apply subject to the specific details set out in the Financing Agreement:
 - Total amount of retroactive financing of expenditures will not exceed 20 per cent of total credit/loan. Any expenditure in excess of 20 per cent of total credit/loan will be borne by Government of India/States.
 - Eligible expenditure can be borne up to a maximum of 12 months prior to the signing of the Project Agreement and Financing Agreement.
 - The PIU and PMU should ensure that the Bank's procurement procedures are followed while incurring expenditure under the Project so that the expenditure becomes eligible for reimbursement from the Bank.

4. Accounting and financial monitoring

4.1. Accounting policies

45. Government departments across India follow the cash basis of accounting which will also be followed for NCRMP.
46. All payments shall be charged off to relevant expense account head at the time of making the payments except advance payments. Advance payments shall be charged off to the relevant heads of accounts on adjustment.
47. The assets created out of Project funds shall be accounted at acquisition cost including taxes, duties, freight and other incidental expenses relating to acquisition.
48. No depreciation shall be provided on Fixed Assets acquired under the Project.
49. The basis of preparation of financial reports and significant accounting policies related to material items shall be disclosed.

4.2. Chart of Accounts

50. In addition to the requirements under GoI rules for financial reporting and irrespective of the legal constitution the PIUs and PMU, the implementing agencies are required to maintain financial records in such detail as is required by the Project guidelines. Accordingly, the PIUs and the PMU will maintain a detailed Chart of Account for booking expenditures under the NCRMP. All expenditure under the Project would be recorded against the appropriate ledger codes specified in the Chart of Accounts for the NCRMP.

The indicative Chart of Account is provided in *Annexure 4*.

51. The Chart of Account maintained should be able to provide sufficient details under which head expenditure has been incurred. The Chart of Account would facilitate categorisation of expenditure as per the Project guidelines.

4.3. Method of accounting and book keeping

52. Separate books of accounts and records of fund flow for the Project funds are required to be maintained by each PIU. In case of Andhra Pradesh, where the existing mechanism for financial management and disbursement would be followed for NCRMP also, the line departments would have to maintain separate books of accounts and records for flow of funds under this Project.
53. A 'Grant in Aid' register in the prescribed form for receipt of funds from Government of India shall be maintained. This register will be used to record the money received as installments of Government of India share, expenditure incurred and reference to

utilisation certificate numbers sent to GoI. The format of the register has been provided in Annexure 5.

54. Each of the PIUs will maintain standard Books of Account (Master Cash Book, Cash book, ledger, cheque issue register, fixed asset register etc.). Master Cash Book shall be a summary of all payments made by the PIU. In case of Andhra Pradesh, these books of account would be maintained by the respective line departments also. The States/NIDM may continue to use existing formats for ledger ,cash book and cheque issue register. An illustrative format of the cheque issue register has been provided in Annexure 6.

55. Support vouchers will be prepared for record of transaction.

56. PIU will pay particular attention to maintenance of Works and Contractor's Registers.

57. The Cash Book will be closed monthly and attested by the In-Charge (Finance) of PIU.

58. In addition, bank reconciliation statements would be prepared by the PMU and the PIUs on a monthly basis and be approved by the Finance Head of the respective implementing agency. An illustrative format of bank reconciliation Statement has been provided in Annexure 7

59. Orissa: While activities will be implemented by various line departments, all payments will be centralized at the State PIU. The implementing departments will be required to send documents and payment instructions to the PIU. The PIU will perform an accounting and back office function and release payments/ issue cheques as directed by the departments. In case (low value) operation and maintenance expenditure needs to be incurred, then opening of imprest (Bank) accounts will be permitted at other departments. This will however be done on a case to case basis after prior approval of PMU. Arrangements as described above will ensure that there is only one accounting location, for the purposes of implementation of a financial accounting software, and statutory audit.

60. Andhra Pradesh: GoAP has decided to use its mainstream accounting and payments systems. Budget will be released by the Finance Department to the Nodal (Revenue) Department which will in turn provide budget to the implementing departments (Panchayati Raj, Roads & Bridges, Irrigation). Implementing offices of these departments (15 from PRI, 5 from R&B and 1 from Irrigation) will approve bills and request the local P&AO (based on a Letter of Credit) to make payments to suppliers/ contractors.

4.4. Fixed Asset Register

61. The PIU, PMU and line departments shall maintain a separate Fixed Asset Register to record the assets acquired and created by them respectively out of the Project funds. The

format is attached as Annexure 8. Individual asset-wise entries will be recorded in the Fixed Asset Register.

62. An identification number for each item of asset would be assigned for easy identification of the assets. These identification numbers would be painted on each item prominently and the same would be recorded in the Fixed Assets Register.

63. Each PIU shall ensure that assets created out of the Project funds are being utilised for Project purposes only. There will be an annual physical verification of fixed assets by the finance wing of the PIU.

4.5. Period for which records are to be kept

64. The PIU/Line departments and the PMU shall ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditure are retained until at least five years after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the loan account was made.

4.6. Submission of Utilisation Certificates

65. Each PIU / PMU shall consolidate the amount spent and amount incurred by it on the basis of entries made in the Cash Book and Master Cash Book. Before seeking funds from GoI, the PIU shall submit the utilisation certificates in prescribed format to the PMU. The Format of utilisation certificates has been provided in *Annexure 9*.

66. Where the PMU is an implementing agency (for instance in Component A, C) or is using the funds for Component D, the PMU shall submit the utilisation certificates to NDMA.

5. Internal Control and Governance Structure

67. To ensure the integrity of Project Accounting and Financial Management System, each PIU and the PMU shall establish proper internal check and internal control mechanism. It includes establishment of procedures and systems for ensuring standard internal control such as checking of expenditures, appropriate documentation, levels of authorisation, periodic bank reconciliation and physical verification.
68. The PIUs and PMU will develop a system to ensure that expenditures are incurred with due regard to economy, efficiency and propriety. For this purpose, finance wing of the PIU and the PMU will check the veracity of records provided by the executing division/department.
69. In case of Andhra Pradesh, the State is following the existing system of financial management wherein the line departments would be maintaining financial records. Therefore the line departments would establish systems such that that expenditures are incurred with due regard to economy, efficiency and propriety. In the state of Andhra Pradesh, Divisional accountants in each of the line departments is an officer on deputation from the Finance Department of the state.

5.1. Financial governance

70. The PIU set-up under each state/UT will follow the rules for delegation of authority applicable to each State/UT. The organisational hierarchy of the PIU shall provide for authority and responsibility of the finance wing of the PIU, who shall be accountable for utilisation of Project funds as per the laid down procedures.
71. The funds to be utilised as per the approved procurement plan and budget. Any re-appropriation of funds from one head to other is permissible only under the sanction of competent authority.
72. Each PIU shall devise a system of reporting which is fair, transparent and assessable to all stakeholders of the Project.
73. The PIU and the PMU shall appoint external auditor for conducting audit of Project Financial Statements of Project as per the scope and report of the auditor shall be available to all stakeholders. For details, refer Section 7.
 - National Steering Committee will review the annual/revised budgets at their semi-annual review meetings. It shall also review the critical findings of audit reports and further actions.
 - State Steering Committees shall perform a similar function for their states.

5.2. Passing of bills

74. The following are the matters to be considered while passing the bills under different categories of expenditure:

5.2.1 Checklist for bills relating to goods

- Whether the bill for purchase of goods is supported by Purchase Order, Goods Received Note and Supplier Agreement, if any?
- Whether the goods have been procured as per the procurement guidelines laid down for NCRMP?
- Whether the request for purchase of goods has been accorded sanction as per respective delegation of power and as per the budget of the concerned period?
- Whether the goods purchased have been taken to stock register and certificate furnished accordingly?

5.2.2 Checklist for bills relating to works

- Whether the bills for Works are passed with reference to original agreement with Contractor? It should be scrutinised that bill raised by the contractor is as per the payment conditions provided in agreement.
- Whether the work bills is counter-signed by the Engineer In-Charge of the work concerned and such site-engineer has certified on the bill that “bill has been cross tallied with the measurement book and as per the stage completed and mentioned in the measurement book”?
- If the work bill presented is the final bill, whether the completion certificate issued by the Engineer in Charge is enclosed?
- Whether the asset created has been taken to asset register and certificate furnished accordingly?

5.2.3 Checklist for bills relating to consulting services

- Whether the bill for consulting services is as per the milestones mentioned in consulting contract?
- If there is any delay in milestones, applicable deduction on account of delay has been made as per consulting contract?

These points are not exhaustive and therefore at the time of passing of bills, consideration should be given to propriety, efficiency and economy of transaction.

5.3. Documentation

75. Every voucher for payment should be filed properly along with the concerned bill and supporting documents.
76. Vouchers should be serially numbered with a corresponding reference key in the accounting system.
- Once the payment is made, the bill should be crossed on its face as “Paid”.

5.4. Internal audit

77. To ensure that PIU has an adequate system of internal control, which includes control over providing reliable data and safeguarding assets and records, it is necessary to have a system of internal audit after prescribed frequencies.

5.4.1 Scope of internal audit

78. The internal auditor shall conduct an assessment of the adequacy of the Project management, financial management, and procurement system including internal controls. The internal auditor shall provide PIU and PMU with timely information and recommendations on the project to enable the PIU and PMU to take corrective measures, wherever necessary.

An indicative checklist on matters to be considered for routine financial controls is given in *Annexure 10*. The terms of reference for the Internal Auditor is provided in *Annexure 11*

5.4.2 Agency for conducting internal audit

79. An independent internal auditor shall be appointed to provide reporting on compliance with operating guidelines for the NCRMP for the PIU and the PMU. Internal auditor for PMU and NIDM would be appointed by the PMU. State PIUs would appoint internal auditors for the respective States.

5.4.3 Frequency and timelines for conducting internal audit

80. At the beginning of each year, an assessment would be made of the work being executed based on the Procurement plan. Based on this assessment, the Finance Head of the PIU and the PMU shall prepare a draft internal audit calendar (for PIU and PMU respectively) detailing the scope, coverage and frequency of review.

81. This audit calendar would be reviewed by the Project Director of the PIU and forwarded to the Project Director, PMU for inputs (if any). Based on the inputs provided, the internal audit coverage would be finalised for the PIU and the PMU for the year.

82. The draft IA Calendar shall be forwarded to the Project Director, PMU for consideration by January 31st of every year. The IA Calendar shall be finalised by the Project Director, PMU by February 28th of every year. The guidelines for finalising the internal audit coverage are as follows:

- The audit should cover at least 50% of the expenditure incurred by the PMU/PIU during the year
- The audit coverage should be decided considering the need for follow up audits at locations where significant observations have been reported previously
- The audit calendar to also include certain works/line departments where there is significant delay in utilisation of funds released

5.4.4 Responsibility for oversight and appointment

83. The Finance Head at the PIU or PMU shall be the coordinating officer for the conduct of the Internal Audit.

5.4.5 Review and reporting

84. The internal auditor would submit the audit report to the Project Director PIU & PMU respectively for their respective operations on a half yearly basis. In addition, the Head the Finance of the PIU shall forward Internal Audit reports to PMU within two weeks of submission by the Internal Auditor.

85. In addition, the Project Director (PIUs and PMU) shall review the findings and the progress of the Internal Audit on a half yearly basis.

5.5. Disclosure requirements

86. The following information shall be provided by the PMU to the NDMA to be displayed on the Project website:

- List of sanctions/releases providing details of sanction order no., recipient State, amount, date of release by Pay and Accounts Office and/or date of cheque.
- Consolidated IUFR for the Project and IUFRs of individual PIUs
- Consolidated 'Project Financial Statements'.(Refer Annexure 12 for format)
- Annual audit report.
- Annual approved budget

6. Financial reporting

6.1. Interim Un-Audited Financial Reports (IUFs)

87. Each PIU shall submit to the PMU Interim Un-audited Financial Reports (IUFs) within 25 days after the end of every Quarter. The PMU shall consolidate the IUFs received from PIUs and send it to the Bank within 45 days after the end of every quarter. The formats of IUFs has been provided in *Annexure 13, Annexure 13A, Annexure 13B*.

88. It is clarified that basis for reporting will be expenditure by the implementing entity and not releases. Reporting through the IUFs will have the advantages of (a) regular reporting of expenditure information, thus ensuring timely monitoring (b) regular reimbursement from the Bank, thus ensuring timely receipt of the loan/ credit funds.

6.2. Project Financial Statements (PFS)

89. The duly audited PFS (refer section 7) shall be prepared and submitted by the PIU to the PMU by August 31st after the end of the financial year. The PMU shall in turn consolidate the PFS and submit them to the Bank within 6 months of the end of the financial year.

90. The PFS shall include:

- A summary of funds received, showing the World Bank and counterpart funds (State share) separately;
- A summary of expenditure under the main Project components, both for the current year and accumulated till date.

The format of the PFS is provided in *Annexure 12*

7. Audit requirements for Project Financial Statements

91. To ensure proper accountability of Project funds and to comply with requirements of World Bank, it is necessary to have an effective system of independent external audit of accounts of the Project.

7.1. Scope of audit

92. The Project Financial Statement (PFS) shall be audited such that the auditor may express a professional opinion on the financial position of NCRMP at the end of each fiscal year and of the funds received and expenditures incurred. The terms of reference for the external auditor have been given in *Annexure 14*.

93. In case of States where books of accounts would be audited by the State AG (For eg- in case of Andhra Pradesh), the scope of audit would be as per the 'standardized terms of reference for audit of World Bank assisted Projects' issued by the office of the C&AG of India (provided in annexure 15). In the case of Orissa, notwithstanding the statutory audit of AG, the project statements shall be audited by an external auditor to be appointed by OSDMA.

7.2. Timeline for conduct of audit of Project Financial Statements

94. The PIU/PMU shall be responsible to get the audit completed for their operations and submit the audit report on or before 30th September each year after the end of financial year of the Project.

95. Accordingly, the PIU and PMU shall submit their audit report to the Head of Finance, PMU on or before August 31 each year after the end of the financial year. The Head of Finance, PMU shall submit these to the World Bank on or before 30th September after the end of the financial year.

7.3. Responsibility for conducting the audit of Project Financial Statements

96. Timely completion of audit at PIU's end and submission of audit certificate along with Project Financial Statements shall be the responsibility of the Head of Finance for the PIU/PMU. The Head of Finance for the PMU shall oversee and monitor that the necessary arrangements have been made well in time for the conduct and reporting of the audit.

7.4. Agency for conducting the audit of Project Financial Statements

97. PMU would appoint a firm of Chartered Accountants empanelled with Comptroller & Auditor General of India (CAG) to carry out an audit of Project accounts for PMU, NIDM and the state of Orissa.

98. The firm would be selected out of this panel based on following criteria:

- Constitution of the firm - Whether partnership or proprietorship and year of establishment;

- Number of partners in the firm - Whether FCAs/ACAs;
- Experience of partners;
- Years of association of Partners with the firm;
- Experience of the firm in similar assignments;
- Turnover of the firm in previous three years; and
- Number of staff providing details of qualified, semi-qualified and others.

99. In case of Andhra Pradesh this audit would be conducted by the State AG as per the terms of reference agreed with CAG (provided in annexure 15). However, State AG would have to adhere to the timeline of six months for completion of audit of Project accounts in these States.

LIST OF ANNEXURES

Annexure 1 - Format for preparation of budget estimates by State PIU's

National Cyclone Risk Mitigation Project

Name of the State PIU:

Budget Estimates for the period.....

S. No.	Component	Specific Tasks/ Objectives to be taken up	Physical Target	Probable date of completion of activity	Estimated expenditure / Funds required	Expenditure incurred till the start of the present year	Budget expenditure category	Disbursement category
	TOTAL:							

Annexure 2 - Format for preparation of budget estimates by PMU

National Cyclone Risk Mitigation Project

Consolidated Budget for the period ending

S. No.	State/PIU	Component	Specific Tasks/ Objectives to be taken up	Physical Targets	Probable date of completion of activity	Estimated expenditure/ Funds required	Expenditure incurred till the start of the present year	Budget expenditure category	Disbursement category
	Sub Total								

**Annexure 3 - Abstract of Rule 237 of General Financial Rule
National Cyclone Risk Mitigation Project**

Reimbursement through Special Account (Revolving Fund Scheme) has been explained in Rule 237, which says:

Under the Revolving Fund Scheme, the Funding Agency disburses the estimated expenditure of four months for the Projects as initial advance to the Government of India under the respective loan/credit/grant agreement. Office of Controller, Aid Accounts and Audit withdraws the amount specified in the agreement as initial deposit from the funding agency, by sending a simple withdrawal application in the prescribed format after the loan is declared effective. Such initial deposit designated in US \$ is received by Reserve Bank of India, Mumbai and rupee equivalent shall be passed on to Controller, Aid Accounts and Audit through Government Foreign Transaction (GFT) advice. However, Reserve Bank of India, Mumbai shall maintain a loan wise Pro forma account for liquidation of advance received from Funding Agency. Office of Controller, Aid Accounts and Audit, on receipt of reimbursement claims from Project Implementing Agency, shall send an advice to Reserve Bank of India, Mumbai advising them to debit the Special Account with the US\$ equivalent of the amount of the eligible claim. Office of Controller, Aid Accounts and Audit shall consolidate all such claims and submit to Funding Agency for replenishment of Special Account. This will be accompanied by a statement of debits and credits made during the period by Reserve Bank of India, Mumbai and supporting documents received from the Project Implementing Agency.

**Annexure 4 - Indicative Chart of Accounts
National Cyclone Risk Mitigation Project**

Expenditure:

Component (1 digit)	Specific Task/ Objectives (2 Digits)	Detailed Head (3 Digits)	Link to Budgetary Classification
Component A – Last mile connectivity	- Purchase of equipments	- Procurement of goods (Plant & Machinery)	Major Works
	- Execution of civil works	- Procurement of goods (Office Equipment)	Other Expenditure
Component – B Physical Infrastructure	- Construction of Embankment	-Procurement of goods (Vehicles)	
	- Construction/Repair of multi-purpose cyclone shelters	- Procurement of goods (Office Furniture)	
	- Construction/Repair of missing rural road links	- Procurement of Goods – Works A/c - Embankment	
Component – C Capacity Building	- Consultancy	- Procurement of Goods – Works A/c – Cyclone Shelters	
		- Procurement of Goods – Works A/c – Approach Roads	
Component D – Project management	- Consultancy	- Procurement of Goods – Works A/c – Others	
	- Operating expenses	- Operating Cost – Salaries	
		- Operating Cost - Rent	
		- Operating cost – Travel Expenses	
		- Operating Cost – Repairs & Maintenance – Office equipment	
		- Operating Expenses – communication Expenses	
		- Operating Expenses – Hiring of vehicles	
		- Operating Expenses - Hiring of Equipments	
	-Operating Expenses – Office Expenses		

Component (1 digit)	Specific Task/ Objectives (2 Digits)	Detailed Head (3 Digits)	Link to Budgetary Classification
		<ul style="list-style-type: none"> -Operating Expenses – Printing & Stationery - Operating Expenses - Books & Periodicals - Advertising Expenses - Consultants’ Services - Operating Expenses – Workshops & Training Programmes Advances – Advances payment to Contractors Advances – Materials issued to Contractor Advances – Advance against Material Advances – Mobilisation advance Advances– Machinery advance Advances – Advances to suppliers Advances - Other Advances - Tax Deducted at source account Statutory Deductions – Income Tax & surcharge from Supplier’s / Contractors (Credit Balance) Statutory Deductions – Works Tax/State Tax & surcharge from Supplier’s / Contractors (Credit Balance) Statutory Deductions – Any other deduction from Supplier’s / Contractors (Credit Balance) Deposits Repayable – Earnest 	

Component (1 digit)	Specific Task/ Objectives (2 Digits)	Detailed Head (3 Digits)	Link to Budgetary Classification
		Money Deposit from suppliers/ contractors (Credit Balance) Deposits Repayable – Security Deposit from supplier/contractor (Credit Balance) Deposits Repayable – Any other refundable deposit	

Receipts

Component (1 digit)	Group of Income (2 Digit)	Detailed Head (3 Digit)
A – Last Mile connectivity	Project funds	Funds Received – GoI share Funds Received – State Govt. share
B – Physical Infrastructure	Incidental Receipts	Forfeiture of EMD
C- Capacity building		Fines, forfeiture, penalties etc.
D – Project management		Any other non-refundable deduction Miscellaneous Receipts

Explanatory Notes to Chart of Accounts:

- This Chart of Account is composition of 6 digit code. The account code structure for expenditure shall be as follows:
 - Component A to D will have codes 1, 2, 3, 4 respectively.
 - Specific tasks/objectives shall be assigned codes starting from 21 up to 99 depending on the number of works to be taken up.
 - Detailed heads will have range from 211 to 999

- The account code structure for receipt shall be as follows:
 - The codes for component shall remain the same.
 - Group head has been assigned code from 11 to 20.
 - Detailed heads will have range from 111 to 199

Annexure 5 – Format of Grant-in-Aid Register

**National Cyclone Risk Mitigation Project
 State Government of
 Project Implementation Unit**

Amount Released by GoI (a)	Reference of Sanction Order No.	Date of credit to State Government Account (b)	Amount Spent	Reference of Utilisation Certificate (UC No.)

The entries can be cross tallied from this register to Master Cash book maintained by PIU.

Annexure 6 – Illustrative Format of Cheque Issue Register

National Cyclone Risk Mitigation Project

Name of the State PIU:

S.No.	Date of Issuance of Cheque	Name of the Party/To whom cheque is issued	Reference of the Bill No./Voucher No./Purpose for which cheque has been issued	Account Head	Amount (in Rs.)

**Annexure 7– Illustrative Format of Bank Reconciliation Statement
National Cyclone Risk Mitigation Project**

Bank reconciliation Statement for XXX as on dd/mm/yyyy				
Particulars		Details		Amount in INR
Debit Balance per Cash Book				XXX
Add	Cheques Issued/drawn but not yet presented for payment		xx	
	Interest Allowed by Bank but not recorded in Cash Book		xx	
	Cheques paid into Bank but omitted to be entered in Cash Book		xx	
	Any wrong Credit given by Bank in the Bank Statement		xx	XXX
<hr/>				
Less	Cheques paid into the Bank but not cleared		xx	
	Interest and expenses charged by Bank		xx	
	Cheques issued but omitted to be entered in Cash Book		xx	
	Any wrong debit given by Bank in the Bank Statement		xx	XXX
<hr/>				
Computed Credit Balance as per Pass Book				XXX
Credit Balance as per Pass Book				XXX
Difference if any				XXX

**Annexure 8 – Illustrative Format of Fixed Asset Register
 National Cyclone Risk Mitigation Project
 State Government of
 Project Implementation Unit**

Sl. No	Description of Item	Custodian Department	Supplier's Name	Location	Date of Purchase	Invoice/ Bill no.	Amt	Qty	Identification No.	Initials

**Annexure 9 - Format of Utilisation Certificate
National Cyclone Risk Mitigation Project**

Sl. No.	Letter No. and date	Amount
	TOTAL (1 + 2)	Rs.

Certified that out of Rs. _____ (**Central share to be mentioned**) of Grants-in-Aid sanctioned during the FY _____ in favour of Government. of _____ under the Ministry/ Department letter No. given in the margin and Rs. _____ (**amount in words**) on account of unspent balance of the previous year, a sum of Rs. _____ (**amount in words**) has been utilised for the purpose of _____ for which it was sanctioned and that the balance of Rs. _____ remaining un-utilised at the end of the year has been surrendered to Govt. vide letter No. _____ dated _____ / will be adjusted towards the grant- in-aid payable during the next year.

Certified that I have satisfied myself that the conditions, on which the grant-in-aid was sanctioned, have been duly fulfilled/are being fulfilled and that I have exercised the following Checks to see that the money was actually utilised for the purpose for which it was sanctioned.

Kinds of Checks exercised:

1. Procurement procedure followed as per norms indicated in procurement manual.
2. Procurement certificate furnished.
3. Civil works carried out by PWD/State approved agencies as per approved estimates and layout drawings.
4. Grant-In-Aid checked from the register maintained
5. Expenditure checked from the register maintained
6. Any other check required as per the guidelines

Signature of Finance Director of PIU

Date: _____

Annexure 10 - Indicative list on basic financial controls
National
National Cyclone Risk Mitigation Project

- **Transactional check**
 - To check whether transactions are recorded properly under appropriate heads of account.
 - To check whether transactions take place under proper authority with respect to concurrence to budget, passing of the bill, making payments etc.
 - To check that transactions are duly supported by proper supporting documents.
 - To check the propriety of transactions to ensure that expenditure are incurred with due consideration of economy and efficiency.
 - To check whether World Bank guidelines are being followed for procurement of goods, works and services.

- **Checking the system of maintenance of Books of Accounts**
 - To ensure that there exists a sound system of book keeping that record all the transactions without delay.
 - To ensure there is proper segregation of duties and persons authorised to make payments are not allowed to update the Books of Account.
 - To ensure that Books of Account are cross tallied at proper intervals of time.
 - To ensure that Books of Account are supported by various subsidiary records and these records are reviewed at periodic intervals.

- **Checking the Subsidiary records**
 - Check whether budgets are reviewed periodically.
 - Check if running bills are raised for payment under each Project.
 - Check the various contracts awarded, supply order raised under each component of the Project.
 - Check the bill register and ensure about the status of fund utilisation and bills pending for payment.
 - Check whether there exist proper linkages between subsidiary records, accounting records and financial reports generated.

- **Checklist for Financial Management**

To check if:

 - Cash book are written up to date.
 - Cash balance reconciles with physical cash in hand, if any.
 - General ledger is written up-to-date and has the relevant ledger heads.
 - All vouchers are serially numbered and filed properly.
 - Bank reconciliations have been done as at the end of each month.
 - Fixed Asset Register is up to date.
 - Advances are classified separately. Only on the receipt of contractor's / vendor's bill, advances are adjusted.
 - Whether advances are outstanding for long (greater than 6 months)
 - Whether there are any pre-signed blank cheques or large cash withdrawals

Annexure 11 - Terms of Reference for Internal Audit National Cyclone Risk Mitigation Project

1. Introduction

Project Background

The Government of India has initiated National Cyclone Risk Mitigation Project ('NCRMP'), herein after referred to as the 'Project' or 'NCRMP', with a view to address cyclone risks in the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs.

The key objectives of the NCRMP are as follows:

- Reduction in vulnerability of coastal States, through creation of appropriate infrastructure which can help mitigate the adverse impacts of cyclones, while preserving the ecological balance of coastal regions.
- Strengthening of cyclone warning systems enabling quick dissemination of warnings and advisories from source/district/sub-district level to the community for their timely reception and adequate response.

Project Components

Based on the above objectives, the Project has been divided into four components, namely:

- **Component A** – Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs.
- **Component B** - Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs.
- **Component C** - Technical assistance for capacity building on hazard risk management. NDMA and National Institute of Disaster Management (NIDM) are the implementing agencies for this Component.
- **Component D**- Project Management and Monitoring applicable to all implementing agencies.

To begin with, NCRMP is proposed to be implemented in the States of Andhra Pradesh and Orissa. Other coastal states/UT's would be considered in further phases of the Project.

Proposed Implementation/ Funds Flow Arrangements:

The NCRMP shall be coordinated by a central Project Management Unit (PMU) set up at NDMA. The participating States/UTs shall set up their respective Project Implementation Units ('PIUs'). The PMU shall coordinate with NDMA, MHA, World Bank, CAAA and other

external agencies involved. The PIUs shall coordinate with the various line departments of the State Government/UT which will be finally responsible for execution of Project work.

The Project is assisted by the World Bank. The external aid disbursed by the World Bank is first received by the Central Government in the Ministry of Finance (MoF). This money is directly transferred to the PIUs' and PMU' Bank Account based on the status of their utilisation of funds and other details as specified in the finance manual. In the case of AP state, the funds would be routed through the regular Treasury mechanism. Expenditure under the Project will either be made centrally at the PMU or at the State PIUs. Each PIU or PMU which makes payments maintains regular books of account and records as per the prescribed procedures.

2. Objective

The objective of the internal audit is to determine whether the Project management arrangements including procurement, financial management, physical progress monitoring and internal control mechanisms are working effectively. The auditor shall also identify areas for improvement and enhancing efficiency. This should include aspects such as adequacy and effectiveness of accounting, financial, procurement related and other operational controls, and any needs for revision; 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 the computerised system.

The internal auditor shall provide the PIU and PMU with timely information and recommendations on the financial management, procurement, project management and physical progress aspects of the Project to enable the management to take corrective measures, wherever necessary.

3. Scope of Audit Services

The audit will be carried out in accordance with applicable professional standards & will include such tests & controls, as auditors consider necessary under the circumstances. In conducting the audit special attention should be paid to the following:

- Procurement
 - Whether goods, works and services are being procured following the procurement procedures defined for the Project (Project Guidelines and the guidelines internal to PIU/PMU)
 - Whether goods, works and services are being procured in accordance with the procurement plan and sanctioned budgets
 - Whether time schedule for procurement of goods, works and services is in line with the Project Procurement Plan
 - Whether required documentation for procurement activity and contract management is being maintained for all purchases made

- Whether capacities for procurement as indicated in the operations manual have been created

- Financial Management
 - Whether books of accounts are being maintained in the manner and formats defined by the Financial Management Manual of the Project
 - Whether the financial transactions are being accurately and completely recorded
 - Whether utilisation certificates and FMRs submitted are prepared in time and reflect the correct status of utilisation of funds as recorded in the books of accounts of the Project
 - Whether the fund management is being done in compliance with Financial management guidelines of the Project
 - Whether funds have been used with due regard to economy, efficiency and for the purposes they were provided.
 - Whether release of money is adequately supported.
 - Special emphasis may be laid on items like :
 - Timely and accurate preparation of Bank Reconciliation Statements
 - Maintenance of separate accounts for NCRMP
 - Timely and accurate preparation of financial reporting statements
 - Surplus funds lying unutilized for long
 - Financial records and registers being maintained
 - Disbursement of funds to the third parties
 - Understand the process of tagging and maintenance of assets acquired under the Project. The auditors may perform physical verification of assets (if considered necessary)
 - Whether capacities for financial management as indicated in the operations manual have been created

- Project Management
 - Whether the physical progress tracking mechanism defined for the Project has been operationalised
 - Whether physical progress reports being submitted have been reviewed for their correctness and authenticity before submission
 - Whether physical progress reports are being submitted as per the timelines and formats defined by the Project tracking framework

- Others
 - Whether appropriate internal controls as specified by the Financial Management Manual, Operations Manual, Procurement Manual and other relevant notifications, if any, are operating satisfactorily. The auditor should suggest methods for improving weak controls or creating them where need be.
 - Verifying compliance with recommendations of the earlier audit reports and commenting thereon
 - Deviations (if any) from Project guidelines have been reported to the PMU in time and requisite approvals obtained

4. Reporting

The Internal audit shall provide the reports with the following frequency:

- Audit report within 2 weeks of the closure of fieldwork to the Project Director
- Quarterly summary of audit findings and recommendations

5. Support/Inputs to be provided by the PIU

The internal auditor will be given access to all legal documents, Project Financial Management Manual, Procurement Manual, procurement check list, and any other unclassified information associated with the Project and deemed necessary by the auditor. It is extremely important that the auditors become familiar with the Project Guidelines on Disbursements and Procurements. All these documents will be provided to the auditor by the PIU/PMU.

**Annexure 12 – Format of Project Financial Statement
National Cyclone Risk Mitigation Project**

For the period ended on.....

(Amount in Rs. '000)

Particulars	For the year ended on	Previous year ended on	Project till date
Sources			
State Government Funds			
Government of India Funds			
Total Sources (I)			
Expenditure by Component			
Component – A - Last Mile Connectivity (A)			
Component – B – Physical Infrastructure <ul style="list-style-type: none"> • Construction/Renovation of Embankment • Construction of multi-purpose cyclone shelters and access roads • Construction/Extension/Repair of missing rural road links • Construction of roads and bridges 			
Total of Component B– (B)			
Component C – (C)			
Component D – (D)			
Advances to Suppliers/ others (E) <ul style="list-style-type: none"> • Advances for civil work • Advances for equipment • Other Advances 			
Total Uses of Funds (II = A + B + C + D + E)			

Certified that the above figures are as per the books of account maintained by the implementing entity.

Signature
Head of the Finance, PMU

Annexure 13 - Interim Un-audited Financial Report
National Cyclone Risk Mitigation Project
Format – 1
Quarterly Interim Financial Reports

Report as on

(Amount in Rs. Lakhs)

Particulars	For the quarter	Cumulative		Forecast for the next 6 months
		Financial year till date	Project till date	
Opening balance of Funds (A)				
Receipts				
State Government Funds				
Government of India Funds				
Other receipts/income				
Total Receipts (B)	-	-	-	
Total Sources (C=A+B)	-	-	-	
<u>Expenditure by Component</u>				
A. Early Warning Dissemination to Coastal Communities				
A.1 – EWS				
A.2 – Community mobilization and training				
Total	-	-	-	-
B. Cyclone Risk management Infrastructure				
B.1 – Cyclone Shelters				
B.1.1 Construction of Cyclone Shelters				
B.1.2 Cyclone Shelter Management Cost (Corpus fund by State Governments)				
B.2 – Roads and Bridges				
B.2.1 Roads to cyclone shelter and habitations				
B.2.2 Connecting roads				
B.2.3 Bridges				
B.3 – Repair and Up-grade of Saline Embankments				
Total	-	-	-	-

C. Technical Assistance for Strengthening Capacity on Disaster Risk Management				
C.1 – Risk Assessment				
C.2 – Capacity building on disaster management				
C.3 – Damage and loss assessment				
Total	-	-	-	-
D. Project Management and Implementation Support				
D.1 – Incremental Operating cost				
D.2 – Technical Assistance Cost				
D.3 – IEC and Capacity building for Management of Cyclone Shelters				
Total	-	-	-	-
Grand Total of Expenditures (D)				
Advances given in the current quarter (E)				
Advances adjusted in the current quarter and consolidated in the expenditure components above (F)				
Closing balance of funds (G=C-D-E+F)	-			

Notes:

- a. Only shaded cells can be modified or data be entered therein
- b. If report is for the quarter ended on June 30th, it should provide information of expenditure for the period of April to June and forecast for the period July to December
- c. Closing balance will be as per Project Books of Account, as on the date of the report
- d. Forecast is to be provided separately for each component

Certified that the above figures are as per the books of account maintained by the implementing entity.

Signature

Head of the Finance, PMU

**Annexure 13 A - Interim Un-audited Financial Report
National Cyclone Risk Mitigation Project
Format – 2
Quarterly Interim Financial Reports**

Report as on

(Amount in Rs. Lakhs)

Particulars	For the quarter (Components A,C &D)	For the Quarter (Component B)	Cumulative				Forecast for the next six months (Components A,C &D)	Forecast for the next six months (Component B)
			Financial year till date (Components A,C &D)	Financial year till date (Component B)	Project till date (Components A,C &D)	Project till date (Component B)		
Expenditure by Implementing Entity								
1. National Disaster Management Authority								
2. National Institute of Disaster Management								
3. Orissa								
4. Andhra Pradesh								
5. State 3								
6. State 4								
7. State 5								
Total Expenditure (D)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Error calculator (Difference from Format – I)	-	-	-	-	-	-	-	-

Annexure 13 B - Interim Un-audited Financial Report
National Cyclone Risk Mitigation Project
Format – 3
Quarterly Interim Financial Report – (World Bank Funds Requirement)

Report as on

(Amount in Rs. Lakhs)

	Total	Components A,C&D (WB share 100%)	Component B (WB share 75%)
Expenditure for the quarter	-	-	-
World Bank Share of the above	-	-	-
Bank funds received till date	I		
Total Project Expenditure till date	II	-	-
World Bank Share of the above	III	-	-
Funds Unutilized (I-III)	IV	-	
Forecast for Project payments for the 6 months	V	-	-
World Bank share of the above	VI	-	-
Less Funds Unutilized	IV	-	
Net Funds required from the Bank (VI-IV)	VII	-	

Notes:

- a. Total projects uses till date 'II', will be the same as Grand Total of Expenditure 'D' as per Format 1, Column 4
- b. Forecast for payments for the next 6 months 'V' will be the same as Grand Total of Expenditure 'D' as per Format I, Column 5

Annexure 14 - Terms of Reference for External Audit National Cyclone Risk Mitigation Project

1. Introduction

Project Background

The Government of India has initiated National Cyclone Risk Mitigation Project ('NCRMP'), herein after referred to as the 'Project' or 'NCRMP', with a view to address cyclone risks in the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs.

The key objectives of the NCRMP are as follows:

- Reduction in vulnerability of coastal States, through creation of appropriate infrastructure which can help mitigate the adverse impacts of cyclones, while preserving the ecological balance of coastal regions.
- Strengthening of cyclone warning systems enabling quick dissemination of warnings and advisories from source/district/sub-district level to the community for their timely reception and adequate response.

To begin with, NCRMP is proposed to be implemented in the States of Andhra Pradesh and Orissa. Other coastal states would be considered in further phases of the Project.

Project Components

Based on the above objectives, the Project has been divided into four components, namely:

- **Component A** – Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs.
- **Component B** - Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs.
- **Component C** - Technical assistance for capacity building on hazard risk management. NDMA and NIDM are the implementing agencies for this Component.
- **Component D**- Project Management and Monitoring applicable to all implementing agencies.

2. Objective

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the financial position of NCRMP at _____ at the end of each fiscal year and of the funds received and expenditures incurred for the accounting period ended on....., as reported by the PFS. The auditor is expected to express an opinion on the eligibility of the expenditure under the Project.

The Project Books of Account provide the basis for preparation of the Project Financial Statements ('PFS') and are established to reflect the financial transaction with respect to the Project, as maintained by the Project Management Unit.

3. Scope

The Audit shall be carried out in accordance with relevant standards of auditing with due regard to regulations and standards of audit of the Comptroller and Auditor General 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 paid to the following:

- All funds provided by GoI with the World Bank assistance have been used in accordance with the conditions of the relevant agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.
- Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- The Project Financial Statements attached to the audit certificate must be on cash basis only.
- All necessary supporting documents, records, and accounts have been kept in respect of all financial transactions of Project including expenditure reported in IUFs.
- Existence of proper audit trail providing linkages between the Books of Account and reports presented to the Bank.
- The Projects accounts have been prepared in accordance with consistently applied Accounting Standards in this respect and the accounting policies laid down in the Financial management manual and give a true and fair view of the financial position of the PIU for the financial year ending 31st March each year and of receipts and payments for the year ended as on that date.
- There exists a system to maintain fixed Asset Register to record all assets procured under the Project. The management has conducted a physical verification of fixed assets during the financial year and major discrepancies, if any, have been adjusted in books. The auditor may undertake physical verification of fixed assets, as deemed necessary, as per the auditing standards.

4. Project Financial Statements

The Project Financial Statements should include:

- A summary of funds received, showing the World Bank and counterpart funds (State share) separately;
- A summary of expenditure under the main Project components, both for the current year and accumulated till date.

As an annex to the Project Financial Statements, the auditor should audit a reconciliation statement (prepared by the Project) between the amounts shown as "received by the Project from the World Bank" and that shown as being disbursed by the Bank. As part of that reconciliation, the mechanism for the disbursement (i.e. Special Accounts, etc) should be indicated.

5. Responsibility of preparing the Project Financial Statements

The responsibility of preparing the Project Financial Statement rests with the Project staff under the guidance of auditors. However the auditors have to express a professional opinion on the true and fair view of the operations of the Project during the year and the financial position of the Project at the close of the fiscal year. The responsibility of maintaining accounting records totally rests with the 'Project Staff'.

6. Management Letter

In addition to the audit reports, the auditor will prepare a "Management letter", in which the auditor should summarise the observations on internal control issues (other than those which materially affect his opinion on the Project Financial Statements). These observations would include:

- Comments and observation on the accounting records, systems and internal controls that were examined during the course of the audit;
- Specific deficiencies and areas of weakness in systems and internal controls and recommendations for their improvement;
- Report on the level of compliance with the financial/ internal control, procedures as documented in the financial manual of the Project; and
- Matters that have come to the attention during the audit which might have a significant impact on the implementation of the Project.

The observations in the management letter must be accompanied by the implications, suggested recommendations from the auditors and management comments on the observations/ recommendations from the management.

7. Audit Opinion

Besides a primary opinion on the PFS, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn and the extent to which the Bank can rely on IUFs as a basis for loan disbursement.

The financial statements, including the audit report, should be received by the Bank no later than six months after the end of the accounting period to which the audit refers. The auditor should submit the two copies of the audited accounts and audit reports to the PIU (/PMU).

The auditors' report shall also contain other statutory certification (where applicable) such as certifications relating to societies registered under "Societies Registration Act, 1860".

8. General

The auditor should be given access to all legal documents, correspondence, and any other information, which is deemed necessary by the auditor, relating to the Project. The auditor

should obtain confirmation of amounts disbursed and outstanding if any from GoI. It is highly desirable that the auditor become familiar with a copy of the Bank's document on Financial Management Practices in the World Bank financed Investment Operations which summarises the Bank's financial reporting and auditing requirements. The auditor should also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor. The auditor would also be provided with copies of the legal agreements, and related manuals of the Project, The auditor will maintain working papers in a systematic manner and make them available to GoI and World Bank if required.

Annexure 15 – Circular of CAG on Terms of Reference for audit of World Bank assisted Projects



१५०११-१११

No 201-Audit (EAP)/1-2007

भारत के नियंत्रक-महालेखा परीक्षक का कार्यालय
**OFFICE OF THE COMPTROLLER
AND AUDITOR GENERAL OF INDIA**

दिनांक
Date

May 14, 2009

To,

Mr. L. Kojima,
Senior Financial Management Specialist,
World Bank,
70, Lodi Estate,
New Delhi-110 003.

Sub: Standardization of Terms of Reference (TOR) for audit of the World Bank assisted Projects.

Sir,

Attention is invited to this office D.O. letter No.102-Audit (EAP)/1-2007 dated March 5, 2008 addressed to Ministry of Finance (Department of Economic Affairs) and copy endorsed to World Bank on the subject cited.

2. In view of the fact that Ministry of Finance (Department of Economic Affairs) have now circulated the Standardized TOR for information and necessary action to all Union Ministries, States & Union Territories etc vide their O.M.F. No. 17/7/2006-FB-II dated March 20, 2009, we have also requested all our field audit offices vide this office circular letter No 167-Audit(EAP)/1-2007 dated 28.4.2009 to undertake audit certification of all new World Bank assisted projects keeping in view the provisions contained in the standardized TOR. In this context a copy of this office D.O. letter dated 5.3.2008 alongwith a copy of Standardized TOR has also been enclosed for their information and guidance.

3. A copy of this office circular dated 28.4.2009 and our reference dated March 5, 2008 alongwith the standardized TOR is also enclosed for information.

Encl: As stated.

Yours faithfully,

M.S. Subrahmanyam
(M.S. Subrahmanyam)
Director (Audit)



IRIS

10, बहादुरशाह ज़फर मार्ग, नई दिल्ली-110124
10, Bahadur Shah Zafar Marg, New Delhi-110124



Circular No.02-Audit (EAP)/I-2009

No.167-Aud : (EAP)/I-2007

भारत के नियंत्रक-महालेखा परीक्षक का कार्यालय
**OFFICE OF THE COMPTROLLER
AND AUDITOR GENERAL OF INDIA**

दिनांक
Date

April 28, 2009

To,

All Principal Accountants General/ Accountants General (Audit),
Directors General (Audit)/ Pr. Director (Audit).

Sub: Standardization of Terms of Reference (TOR) for audit of the World Bank assisted Projects.

Sir/Madam

The issue of standardization of Terms of Reference (TOR) for audit of the World Bank assisted projects has been under consideration for quite some time. The draft TOR prepared by the World Bank and forwarded by Ministry of Finance (Department of Economic Affairs) was examined in consultation with the World Bank Team. The TOR has been revised to make it more integrated with the existing procedure applicable to audit of Externally Assisted Projects (EAPs).

2. The TOR was approved by C&AG. Ministry of Finance (Department of Economic Affairs) was apprised of this decision under intimation to the World Bank. Ministry of Finance, Department of Economic Affairs have now circulated the standardized TOR to all Ministries, States, UTs, etc. for information and necessary action vide their F. No. 17/7/2006-FB-II dated March 20, 2009. *(copy enclosed)*

3. Therefore, audit certification of all new World Bank assisted projects may be undertaken keeping in view the provisions contained in the standardized TOR. In this context, a copy of DG (Audit)'s D.O. letter dated March 5, 2008, addressed to Ministry of Finance, alongwith a copy of the standardized TOR is enclosed for information and guidance. The points highlighted under para 4 of the D.O. letter dated March 5, 2008 clarify the issues relating to format for Audit certification/Report and requirement of Management Letter.

Encl: As stated.

Yours faithfully,

(B.B. PANDIT)
Director General (Audit)

10, बहादुरशाह ज़फर मार्ग, नई दिल्ली-110124
10, Bahadur Shah Zafar Marg, New Delhi-110124

TERMS OF REFERENCE FOR THE AUDIT OF PROJECT FINANCIAL STATEMENTS OF [PROJECT NAME] (For audits conducted by CAG)

Background

[Project Aims, Timelines and Objectives]¹

Objective

The essence of the World Bank² audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank loans were used for the purposes intended,³ that the annual project financial statements are free from material misstatement, and that the terms of the loan agreement were 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 (1) 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. In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports 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 under the Statement of Expenditure method of reimbursement.

The books of account that provide the basis for preparation of the PFS are established to reflect the financial transactions of the project and are maintained by the project implementation agency- [] Project Implementation Unit and the participating divisions.

Standards

The audit will be carried out in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General 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 loan proceeds for purposes other than as defined in the legal agreement remains with the borrower, the

¹ The background should normally include a detailed description of the project including information on project sources of funding; the purposes for which the funds are intended; and a general description of implementation arrangements, including the organizational structure of all implementing entities.

² "World Bank" includes the International Development Agency and the International Bank for Reconstruction and Development. "Loans" includes credits and grants to which the TORs would apply; and "borrower" includes recipients of such loans.

³ The Bank's charter [Article III Section V(b) of IBRD's Articles of Agreement and Article V Section (g) of IDA's Articles of Agreement] specify that: "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."

audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

Scope⁴

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 SOEs/SAs/ or FMRs 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 Government Accounting Standards⁵ 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.

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. See Annexure 1 for an example of a Statement of Sources and Applications of Funds that could be prepared for a project implemented by core government departments.
- B. Reconciliation of Claims to Total Applications of Funds. The PFS include a reconciliation between expenditure reported as per the Statement of Sources and Applications of Funds and expenditure claimed from the World Bank through Statements of Expenditures (SOE), documented claims or report based methods of reimbursement. An example is shown at Annexure 2.
- C. Other Statements or Schedules as may be applicable in particular circumstances and as specified in the relevant legal agreements, such as:
 - A statement showing appropriate major heads of expenditure. (say by Project Component/Sub-components)

⁴ In response to identified project risks, the scope may be expanded to include a report or the expression of an opinion on specific aspects of the operation such as internal controls, compliance with Bank procurement policies, or efficiency and effectiveness in the use of loan proceeds.

⁵ Until such time as the pronouncements of the Government Accounting Standards Advisory Board are accepted and prescribed by the Ministry of Finance, the accounting standards followed by the Government of India will be defined by the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.

- A summary of cumulative expenditures by category of expenditure such as buildings, equipment, furniture, vehicles, major rehabilitation of canals etc
- 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 3.

Statements of Expenditures and Financial Management Reports

In addition to the audit of the PFS, the auditor is required to audit all Statements of Expenditures (SOEs) and/or Financial Management Reports (FMRs) 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, 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 Comptroller and Auditor General 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."⁶ In addition, the audit opinion paragraph will specify whether, in the auditor's opinion, (a) with respect to SOEs, 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. Relevant CAG Auditing Standards are reproduced in Annexure 5. A sample audit report wordings for unqualified opinion is shown at Annexure 4.

The project financial statements and the audit report should be received by the Bank not later than 6 months after the end of the fiscal year. The auditor should also submit two copies of the audited accounts and audit report to the Implementing Agency.

The audit report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT Legislature.

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.

⁶ See relevant portions of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time.

Where such 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.

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, a copy of these Guidelines, and a copy of the Bank's Financial Management Assessment of the project entity. 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.

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Annexure 1

Example of a Statement of Sources and Application of Funds
(projects implemented by core government departments)

Name of the Project _____
Loan/Credit/Grant No. _____
Statement of Sources and Applications of Funds
Report for the year ended _____

In Rs. '000

Particulars	Current Year	Previous Year	Project to date
Opening Balance, (if cash balances are controlled by the entity) (A)			
Receipts			
Funds received from Government through Budget (These will include external assistance received by Government for the project.)			
Funds received directly by Project Implementing Authority through external assistance			
Beneficiary Contribution (if any)			
Total Receipts (B)			
Total Sources (C = A + B)			
Expenditures by Component			
A.			
B.			
C.			
Total Expenditures (D)			
Closing Balance, (if cash balances are controlled by the entity) (C-D)			

Notes:

1. Information about the basis of preparation of the financial statements with regard to the Financial Rules and Codes applicable.
2. The above figures will be based on monthly/quarterly abstract accounts prepared by the accounts compiling offices, duly reconciled by the respective DDOs, with details of unreconciled amounts to be furnished.
3. Names of accounting units whose financial statements are aggregated to prepare the consolidated accounts.
4. Any other project specific Note.

Annexure 2

Sample Reconciliation of Claims to Total Applications of Funds

Name of the Project _____
 Loan / Credit / Grant No. _____
 Reconciliation of Claims to Total Applications of Funds
 Report for the year ended _____

Bank Funds claimed during the year (A)

Total Expenditure made during the year (B)

Less: Outstanding AC Bills (C)

Ineligible expenditures (D)

Expenditures not claimed (E)

Total Eligible Expenditures Claimed

(F)=(B)-(C)-(D)-(E)

World Bank Share @ x% of (F) above (G)

Schedules	Amt (Rs. '000)		
	Current Year	Previous Year	Project to date
I			
II			
III			
IV			

CFAO

Project Director

Date

Date

Notes:

1. Total expenditure made during the year (B above) must be the same as the Total Expenditures shown on the Statement of Sources and Applications of Funds (D on the Statement of Sources and Applications of Funds)
2. Outstanding AC Bills (C above) reflect funds drawn against AC bills that have been booked as expenditure but not settled by the end of the year (ie, unsettled advances). The project should show in Schedule II the opening balance of unsettled AC bills, AC bills drawn during the year, AC bills settled during the year, and AC bills unsettled at the end of the year.
3. Expenditures not claimed (E above) may reflect timing differences for eligible expenditures incurred during the year but claimed after the year end.
4. Amounts A and G above must be equal.

Annexure 3

Example of a Management Assertion Letter⁷

(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.
- 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.

(Senior Executive Officer)

(Senior Financial Officer)

⁷ This sample management assertion letter is based on ISA 580, "Management Representations," *Handbook of International Auditing, Assurance and Ethics Pronouncements*, International Federation of Accountants, 2007

Annexure 4

Sample Audit Report—Unqualified Opinion⁸**Report of the Comptroller and Auditor General of India**Addressee⁹**Report on the Project Financial Statements**

We have audited the accompanying financial statements of the _____ Project financed under World Bank Loan No. _____/IDA, which comprise the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds¹⁰ for the year ended _____, These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General 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. Our audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the sources and applications of funds of _____ Project for the year ended _____ in accordance with Government of India accounting standards.¹¹

In addition, in our opinion, (a) with respect to SOEs, 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 this audit report, expenditures are eligible for financing under the Loan/Credit Agreement. During the course of the audit, SOFs/FMRs (each application no. and amount to be indicated) and the connected

⁸ See relevant portion of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified, adverse or disclaimers of opinion may appropriately be rendered.

⁹ The auditor's report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited project financial statements.

¹⁰ Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

¹¹ Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IPSAS, the accounting standards followed by the Government of India shall be the cash basis of accounting applied with due regard to the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.

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documents were examined and these can be relied upon to support reimbursement under the Loan/Credit Agreement.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT Legislature.

[Auditor's Signature]

[Auditor's Address]

[Date¹²]

¹² The report should be dated as of the date to which the auditor has become aware of and considered the effects of events and transactions. This is generally the final date of fieldwork, as opposed to the date of signing the audit report.

13/5/20

Annexure 5

Excerpt from CAG Auditing Standards (2nd Edition, 2002) Chapter IV, Reporting Standards

- 11. The form and content of audit opinion and report.
 - 11.1 The form and content of all audit opinions and reports are founded on the following general principles:
 - (a) **Title.** The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
 - (b) **Signature and date.** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).
 - (c) **Objectives and scope.** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
 - (d) **Completeness.** Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence CAG may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
 - (e) **Addressee.** The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery.
 - (f) **Identification of subject matter.** The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
 - (g) **Legal basis.** Audit opinions and reports should identify the legislation or other authority providing for the audit.
 - (h) **Compliance with standards.** Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
 - (i) **Timeliness.** The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.
 - 11.2 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its

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14/5

meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate 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.

- 11.3 An unqualified opinion is given when the auditor is satisfied in all material respects that:
- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
 - (b) The statements comply with statutory requirements and relevant regulations;
 - (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
 - (d) There is adequate disclosure of all material matters relevant to the financial statements.
- 11.4 **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as "emphases of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.
- 11.5 **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
- 11.6 **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
- 11.7 It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annexure 16 – Circular of Aid, Accounts and Audit Division regarding Report based disbursement.

1

No. AAAD/Disb. II/ IBRD/ FMR/ 2007
 Ministry of Finance
 Department of Economic Affairs
 Aid Accounts & Audit Division
 Disbursement I & II Sections
 Janpath Bhawan, 'B' Wing
 Janpath, New Delhi

CD'S Incoming Mail	
Date:	Sept-3 2008
For action	F.M.
CC:	Ban. non aad Sankha
CD's file	

2nd September, 2008

OFFICE MEMORANDAM

It has been observed that projects selected for FMR based disbursements are facing problems in compilation and reporting the expenditure to the World Bank. Therefore, revised guidelines are being issued in consultation with World Bank, which are as under:-

1. New Projects:

At time of initiation of a new project the Task Team Leader (TTL)/ Financial Management Specialist (FMS) from the World Bank may organize a meeting with CAAA including participation of the project finance staff to clarify requirements and procedure relating to FMR based disbursements. Alternatively this could also be done in case the project organizes a 'Project Launch Workshop' where CAAA staff may be invited. Further, the World Bank has suggested that if CAAA can designate a specific officer as the point person for each project, then the Project Staff as well as the Task Team will be able to regularly liaise with him/her for claim submission. In this regard a list of officers will be provided to the World Bank.

2. Approval of FMRs:

It is advised that the project send a copy of the FMR in advance to World Bank TTL before submitting to CAAA for review and comments. This procedure may be followed at least for the first 2 – 3 quarters in case of new projects. In this regard as suggested by World Bank, CAAA obtain a confirmation from projects that the Reports have already been sent to the Task Team Leader in the Bank and their comments incorporated/ approval obtained before submission to the CAAA.

3. Advance:

If the World Bank and the project are in disagreement on a FMR (e.g. amount of forecast for the two quarters) then World Bank should try its best to disburse what it considers as appropriate; rejection of the entire Withdrawal Application should be the last resort. The World Bank agreed that the amount of the advance considered reasonable be immediately disbursed by the Bank. However, the calculation of advance will have to be as per the terms agreed and forming part of the loan documentation.

4. Retroactive financing:

In such cases, a separate, one time, FMR will be submitted by the project covering eligible expenditure; this will not include any forecast. Alternatively, the regular FMR may include a separate column for the retroactive period.

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5. Mixed IBRD and IDA Loans/Credits:

In case a Project gets a mix of IBRD and IDA Funds, first liking will be a separate FMR to be prepared by the project for each component. Alternatively they have to clearly identify each requirement in the same format.

6. FMR with forecast:

In case a FMR based application is received with a forecast, then the same will be processed by the CAAA through two RFs; the first will liquidate earlier Special Account Advance with the reported expenditure and the second will modify the Special Account Advance based on the forecast. The exchange rate will be same in both the cases i.e. the rate on the date of debiting the special account in RBI.

7. Details in CAAA Systems:


CAAA will maintain details as per the various categories/components as mentioned in the Loan/ Credit Agreement. Separate line items will be created in case separate disbursement percentages are mentioned against each. However, in context of the FMR formats which usually might be more detailed, the same level of details may not be maintained as part of the CAAA system and the withdrawal application.

8. Summary Sheet:

FMR formats are generally prepared as per the activities of the project. It may not be possible to standardize these formats. To resolve this issue, an Abstract (Summary) Sheet has been prepared which is enclosed. The project authority will submit this sheet along with other formats while claiming expenditures.

All the stakeholders are requested to follow these guidelines for smooth and better functioning of the FMR based projects.

This issue with the approval of CAA&A and Joint Secretary (FB), DEA, North Block, New Delhi.

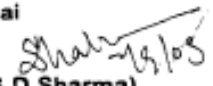

(S.D. Sharma)
Joint Controller

Encl a/a

All the Projects implementing FMR based Projects

Copy for information:

- (1) Joint Secretary (Fund Bank), Department of Economic Affairs, Ministry of Finance, North Block, New Delhi.
- (2) All Directors of Fund Bank Division, DEA, M/O Finance, North Block, New Delhi.
- (3) Mr. Rachid Benmessaoud, Acting Country Director, World Bank, New Delhi
- (4) Ms. Samvita Reddy, Finance Officer, World Bank, Chennai Office, Chennai


(S.D.Sharma)