

Terms of Reference

PROVIDING CONSULTANCY SERVICES FOR PROJECT INTERNAL AUDIT Bihar Kosi Basin Development Project (BKBDP)

1. Background

The **Bihar Aapda Punarwas Evam Punarnirman Society** (BAPEPS or Society) is a society registered under the Societies Registration Act, 1860 formed with the objective of rehabilitation and reconstruction of disaster affected areas and bringing convergence between all agencies working in this field. BAPEPS is State Project Monitoring Unit (SPMU) under the State Planning and Development Department and has a General Body and an Executive Committee, whose powers and functions are detailed in the memorandum and bye laws of the Society. BAPEPS headquarter is in Patna and has its office at Indira Bhawan, R C Singh Path, Patna.

BAPEPS has been given the mandate to implement the \$375 Million World Bank assisted **Kosi Basin Development Project** (BKBDP) in five districts of Bihar i.e. **Supaul, Madhepura, Saharsa, Purnea and Araria**. The Project will support the efforts of the Government of Bihar (GoB) in helping communities recover from the impacts of the flood and reduce vulnerabilities from flood hazard of affected population. To this effect, the Project has five components which are being implemented through specialized state agencies (Implementing Agencies) as given below. Detailed description of each component is given in the Project Appraisal Document (PAD) /Credit Agreement.

- (a) Improving Flood Risk Management;
- (b) Enhancing Agricultural Productivity & Competitiveness ;
- (c) Augmenting Connectivity;
- (d) Contingent Emergency Response; and
- (e) Implementation Support

2. Project Implementation Arrangements

The SPMU is responsible for coordinating and monitoring the implementation of the Bihar Kosi Basin Development Project (BKBDP), being executed by the respective Implementing Agencies (IAs). The five Line Departments namely Bihar Rajya Pul Nirman Nigam Limited (BRPNL), Rural Works Department (RWD), Water Resources Department (WRD) and Animal and Fisheries Resource Department (AFRD) are the Implementing Agencies and are responsible for ensuring timely completion of the works, maintaining specific quality standards as spelt out in respective agreements made with the contractors.

The Project Internal Auditor will be appointed by the BAPEPS. The Internal Auditor shall report to BAPEPS and submit its findings.

3. Financial Management Framework

IDA funds flow from the World Bank to a Designated Account of the Government of India (GoI) and then transferred to GoB. The Project funds are provided in the budget of the State Planning & Development Department through a separate budget line and provided to the Society as a Grant and deposited in a dedicated Project Bank account. The Financial Management Framework is contained in a Financial Management Manual (supported by the Operations Manual and Procurement Manual) and Parent Child accounting guideline. All payments are decentralized with the Sub Implementation Agencies. The executing agencies BRPNNL, RWD, WRD and AFRD make the payments on the basis of certified bills.

The power of overall implementation of the Project is vested in a Project Director and the finance and accounts functions are under a CFO/Deputy Director (Finance) reporting to the Project Director. BAPEPS SPMU, Divisional Offices of BRPNNL, RWD, WRD, AFRD and SPIU at the State level and DPIU (in case of AFRD) is the accounting center doing Manual Accounting or using TALLY software for maintenance of the Accounts, and Project Financial Statements (PFS) are generated at the BAPEPS level by Consolidation the Accounts submitted by different Accounting centers.

Reporting of expenditure to the World Bank is through Interim Unaudited Financial Reports (IUFR) which also form the basis for Disbursement. Project Audit including audit of the PFS is mandated to be conducted by an independent firm of Chartered Accountants selected according to the World Bank Procurement Guidelines for selection of consultants.

BAPEPS desires to appoint an independent firm of Chartered Accountants as Internal Auditors to conduct the Quarterly Audit of the project under the following Terms of Reference.

4. Objective of the Audit

The essence of World Bank's audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of the Credit were used for the purposes intended,¹ that the PFS are free from material misstatement, and the terms of the legal agreements were complied with in all material respects.

The key objectives of the Project Internal audit are to obtain a professional opinion from independent auditors whether –

1. the Project funds were utilized for the purposes for which they were provided;
2. Expenditures are eligible for financing under the Project legal agreements and these were exclusively financed through the Project funds and no other sources of funds have been received by BAPEPS for incurring these expenditures;

3. Expenditure reported in the Interim Unaudited Financial Reports (IUFRR) are in agreement with the books of account and the IUFRRs can be relied upon to support applications for withdrawal of Credit, and adequate documentation has been maintained to support these claims;
4. Procurement has been carried by BAPEPS in line with the agreed procedures as detailed in the Project legal agreements and the Procurement Manual; and
5. the Project has an adequate internal control system (including its continuing implementation and effectiveness) and adheres to the provisions of the project legal agreements, the Financial Management, Procurement and Operations Manual in all material aspects.
6. 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 implementation agency, the BAPEPS.

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 implementing agency, the BAPEPS & other accounting centres which is as follows: -

S. No.	Department / Agency	Nodal Office	Divisional / Field Office
1.	Bihar Raj PulNirman Nigam Limited (BRPNNL)	Patna	Nil
2.	Rural Works Department (RWD)	Patna	Birpur Division, Supaul Triveniganj Division, Supaul Udakishunganj Division, Madhepura Simribakhtiyarpur Division, Saharsa Saharsa Division, Saharsa Madhepura Division, Madhepura
3.	Water Resource Department	Patna	Flood Management Improvement Support Centre, Anisabad, Patna Eastern Embankment Division-2, Birpur Western Kosi Embankment Division, Nirmali, Supaul Eastern Embankment Division, Supaul Eastern Embankment Division-2, Birpur
4.	Animal and Fish Resources Department	Patna	5 DPIUs and 57 block offices

5. Standards

The Internal Audit will be carried out in accordance with the Standards on Auditing promulgated by the Institute of Chartered Accountants of India (ICAI). The auditor should accordingly consider materiality when planning and performing the Internal Audit to reduce audit risk to an acceptable level that is consistent with the objectives of the audit. Although the primary responsibility for preventing irregularity and fraud, or ensuring that the Credit proceeds are used for purposes as required in the legal agreements remains with the Management, the Auditor should specifically consider the risk of material misstatements in the financial statements resulting from fraud, while planning and performing the audit procedures and evaluating and reporting the results thereof.

6. Scope of Work and Coverage of the Audit

The audit will cover all the Project sources and applications of funds and cover the following auditable units in the manner suggested in above para 5.

- The State Project Management Unit of BAPEPS and
- Nodal Offices and Divisional Offices of the sub-implementing agencies namely BRPNNL, RWD,WRD and AFRD.

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

- a) Bank funds have been used by BAPEPS and the Implementing agencies in accordance with the conditions of the relevant legal documents and only for the purposes for which the financing was provided.
- b) Counterpart funds have been provided and used in accordance with the relevant legal documents (*ibid*) and only for the purposes for which they were provided.
- c) The expenditures claimed through IUFRs and withdrawal applications are eligible within the legal agreements and the extent to which the IUFRs can be relied upon as a basis for reimbursement. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be specifically reported by the auditor.
- d) All necessary supporting documents, records, and accounts have been kept in respect of all Project transactions including procurement and expenditures reported via the IUFRs. Clear linkages exist between the books of account and the IUFRs.
- e) Procurement has been carried out by BAPEPS and sub-implementing agencies in line with the agreed procedures documented in the Procurement Manual for the Project agreed with the Bank.
- f) An assessment of the adequacy of the Project financial management systems, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls, and any need for revision; level of compliance with established policies, plans and procedures; reliability of accounting systems (including integrity controls, security and effectiveness of the operation of the TALLY accounting software), data and financial reports; physical verification and

reconciliation procedures; methods of remedying weak control or creating controls in areas in where they are lacking and in particular will review and report on -

- g) whether the internal controls for the Agriculture Component are adequate and sufficient documentation, verification and approvals exists in respect of eligible beneficiaries such as FIG/WSCG/Producers association / milestones for determining the tranche releases and actual transfer to the accounts of the beneficiaries in accordance with the Operations Manual and whether the BPIUs have maintained adequate individual files of the beneficiaries;
- h) whether adequate contract records have been maintained by the sub-implementing agencies namely BRPNNL, RWD ,WRD and AFRD (including Contract Bonds, Contract Register, Guarantee Register and original Guarantee Bonds).
- i) An assessment of the adequacy of the project financial management systems, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and 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 controls in areas where they are lacking; verification of assets and liabilities.
- j) whether the fund/ tranche release to the producers Organizations are properly approved by the officer in BPIU having the necessary authority and the conditions (tiggers/ graduation criteria) for tranche release (as provided in the OM for various funds) have been complied and are in line with the financing agreement,
- k) Whether the BPIU under AFRD is accounting for the tranche release properly in the subsidiary records and is monitoring the receipt of periodic reports and utilization certificates from the FIGs/WHGs /PA/PC & systems to follow up on overdue reports are adequate.
- l) Whether the accounts of the project are complied in a timely manner and the expenditures consolidated on a monthly basis at the SPIU level.
- m) An assessment of compliance with provisions of financing agreements (IDA Development Credit Agreement and Project Agreement), especially those relating to procurement, accounting and financial matters.
- n) Goods, works and services financed have been procured in accordance with the World Bank procurement guidelines, procurement manual of the project and financing agreements;
- o) All necessary supporting documents, records, and accounts have been kept in respect of all project activities and that clear linkages exist between accounting records, accounts books and the periodic financial reports (internal and external i.e Interim Financial Reports)
- p) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets and ensuring that there is a system of physical verifications of assets.
- q) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.
- r) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.

7. Methodology for conduct of Audit

The audit will be conducted in the following manner -

- **Quarterly Audit** covering the SPIU of BAPEPS; all Divisional Offices of the sub-implementing offices (BRPNNL, RWD ,WRD and AFRD) implementing the Project of which at least 2 district covered under the Project so that all Districts are covered at least twice every year. Quarterly Audit will include aspects of transactional audit, compliance audit and operational audit.

8. Period of Audit

The Audit will cover the period from April 1, 2020 to March 31,2022, i. e. the financial year 2020 - 2021 & 2021 - 2022. The selected firm will in advance agree with the Project a “Quarterly Schedule of Audit”.

9. Reporting

The Auditors will submit Quarterly Reports.

The **Quarterly Audit Reports** will be in the form of a Management Letter describing the methodology and coverage of audit and detailed audit findings with recommendations. Each quarterly audit report will contain the opinion of the Auditor on the matters given in para 2. Each quarterly report will be one consolidated report and will be placed before the executive Committee within 60 days of the end of each quarter, except for the report for the last quarter of the financial year within three months from the end of the Financial year.

Suggested format of the quarterly audit report -

- **Introduction** – scope, nature and coverage of the audit including period covered, units audited.
- **Executive Summary** – Gist of key audit observations preferably classified as per thematic area with the response of the auditee, in the following format –

Executive Summary

<i>Auditee</i>	<i>Observation</i>	<i>Implications (financial, control issue, systemic/ process weakness etc.)</i>	<i>Corrective Action/s Recommended</i>	<i>Auditee’s Response/ Agreed Action</i>	<i>Person responsible / Target Date</i>
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- Opinion of the auditor on the specified matters.
- Specific report on any fraud, illegal act or misappropriation and significant non – compliance.
- Status of compliance with previous audit reports, in the following format -

Status of compliance to previous audit reports (separately for each quarterly audit report)

Quarter Ended __/__/20__

Date of audit report __/__/20__

<i>Auditee</i>	<i>Observation</i>	<i>Implications (financial, control issue, systemic/proc ess weakness etc.)</i>	<i>Corrective Action/s Recommended</i>	<i>Person responsibl / Target Date</i>	<i>Current Status (Fully / Partially complied or not complied)</i>	<i>Final recommendation of the Auditor</i>
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- Detailed Audit Report containing observations on the areas of coverage given above separately indicating systemic issues. Audit observations should be broadly classified under various categories viz. financial reporting, accounting including maintenance of books and records, AAP/budget and fund flows, internal controls, compliance with statutory obligations, and prescribed delegation of powers, guidelines on financial management and procurement etc.
- Suggestions for improvement.

10. Qualifications of the Audit Firm and Key Personnel

The audit firm applying for the assignment should possess the following minimum qualifications

The audit team will comprise, at the minimum, the following personnel.

- The audit team will be led by a Partner of the Firm with minimum 10 years post-qualification experience as practicing Chartered Accountant and minimum 5 years with the Firm;
- An Audit Manager for day to day audit administration with minimum 5 years of post-qualification experience as practicing Chartered Accountant and minimum 3 years with the Firm
- Audit team comprising of appropriate number of qualified/semi qualified staff commensurate with the size and scope of audit.

11. General

The auditor will be given full access to all documents, correspondence, and any other information relating to the programs and deemed necessary by the auditor. The Deputy Director (Finance) will be the Nodal Officer for audit. The auditor should become familiar with the Project, and with the relevant policies and guidelines of the World Bank (including those relating to disbursements, procurement and financial management and reporting and auditing). The auditor would be provided copies of the Credit Agreement and Project Agreement, Minutes of Negotiations, Disbursement Letter, Emergency Project

Paper, Operations Manual, Financial Management Manual, Procurement Manual, and other relevant guidelines, policies and procedures issued by the Project.

The audit firm may be retained for a period of two years. However, the appointment will on an annual basis renewable based on the performance review.

The work of the auditor will be reviewed by a Quality Review Committee comprising of Development Commissioner/President, the Project Director and the Deputy Director (Finance). The auditor will be expected to comply with the directions of the quality review and make good the deficiency/s pointed out. In case the audit firm fails to respond, the work may be assigned to another firm and the audit firm will not be considered for any other engagement in future.