

BIHAR AAPDA PUNARWAS EVAM PUNARNIRMAN SOCIETY

Terms of Reference for Appointment of Statutory Auditors to audit the Annual Financial Statements (F.Y 2018-19 & 2019-20) of Bihar Aapda Punarwas Evam Purnirman Soociety (BAPEPS)

1. Background

The Bihar Aapda Punarwas Evam Punarnirman Society (BAPEPS) 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 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 is headquartered in Patna is presently implementing Bihar Kosi Basin Development Project (BKBDP)- supported by the World Bank.

2. Brief background of the Project

BAPEPS is implementing the following projects: -

BIHAR KOSI BASIN DEVELOPMENT PROJECT (BKBDP)

BAPEPS has started Bihar Kosi Basin Development Project in five districts of Bihar i.e. **Supaul, Madhepura, Saharsa, Purnea and Araria** from March 2016. The expected closing date of the project is March 2023. BKBDP is the extension of Kosi Phase I project i.e. Bihar Kosi Flood Recovery Project (BKFRP) with additional component on Agriculture including, Animal Husbandry to be implemented in two more districts i.e. Purnea and Araria. The project will enhance resilience to floods and increase agricultural production and productivity in the flood-affected districts in the Kosi River Basin, and to improve the Government of Bihar's capacity to respond promptly and effectively to an eligible crisis or emergency in five districts with following component: -

- Improving Flood Risk Management
- Enhancing Agricultural Productivity & Competitiveness
- Augmenting Connectivity
- Contingent Emergency Response
- Implementation Support

To this effect, the Project has five components which will be implemented through specialized state agencies (sub-implementing agencies). Detailed description of each component is given in the Project Appraisal Document (PAD)/Credit Agreement.

- (a) BAPEPS has overall responsibility of BKBDP which operates through State Project Management Unit of BAPEPS at Patna and
- (b) Improving Flood Risk Management, through Water Resources Department with the help of Project Implementing Unit at State Level and its Six Divisional Offices; and

- (c) Enhancing Agriculture Productivity & Competitiveness, through Department of Agriculture along with Animal & Fisheries Resource Department with the help of Project Implementing Unit at State Level and five District Project Implementing Units; and
- (d) Augmenting Connectivity, through Bihar Rajya Pul Nirman Nigam Limited and Rural Works Department with the help of Project Implementing Unit at State Level and Division level; and
- (e) Contingent Emergency Response and Implementation and Capacity Building Support through State Project Management Unit of BAPEPS at Patna.

Note: Detailed list of districts/ divisional offices of sub-implementing agencies can be seen in *Annexure-1*

3. Implementation arrangements and Financial Management Framework:

IDA funds flow from the World Bank to Designated Accounts 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.

In works component, BAPEPS has implemented Parent-child banking arrangements for payments. Under this decentralized system of payment supported by a use of dedicated project child bank accounts opened by the IAs/PIUs, through their respective designated authorized dual signatories for the purposes of all matters under the project. Each of such agencies or sub-agencies directly makes payment for works done/ services performed/ supplies made/ milestones achieved to contractor/service provider/supplier. The DDOs of the divisional/nodal offices receives fund limit in their zero balance child accounts from parent account of BAPEPS. Bills are paid to the contractors/vendors by these units. The power of overall implementation of the Project is vested in a Project Director and the finance and accounts functions are under a Deputy Director (Finance) reporting to the Project Director, BAPEPS. SPMU and other Implementing Units i.e BRPNL, WRD, RWD, Department of Agriculture and Animal and Fish Resources Department are the accounting centers using TALLY software/Manual Accounting. Accounts are consolidated at SPMU level where the annual Project Financial Statements (PFS) are generated. Reporting of expenditure is through Interim Unaudited Financial Report (IUFR) which also forms the basis for disbursement. Project Audit including audit of the PFS is mandated to be conducted by an independent firm of Chartered Accountants (to be selected in accordance with the World Bank Procurement Guidelines for selection of consultants).

4. Statement of Intent:

BAPEPS desires to appoint an independent firm of Chartered Accountants as Auditors to conduct the audit of the PFS of the aforesaid mentioned project under the following Terms of Reference. The Audit will cover the period from **April 1, 2018 to March 31, 2020 i.e. the financial year 2018-19 & 2019-20 and which could be extended for further one year**

subject to satisfactory performance of the audit firm. The selected firm will in advance agree with the Project's "Schedule of Audit".

5. Objectives of the Audit:

The Bank's Charter [Article III Section V(b) of IBRD's Articles of Agreement and Article V Section 1(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".

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

The overall objective of the audit of the PFS is to enable the auditor to express a professional opinion as to whether:

1. The PFS gives a true and fair view of the financial position of the Project at the end of the period under audit examination, and of the sources and applications of project funds for that period;
2. The project funds were utilized for the purposes for which they were provided.
3. Expenditures, including assets created under the project, shown in the PFS 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;
4. Expenditure reported in the interim Unaudited Financial Reports (IUFR) are in agreement with the books of account and the IUFRs can be relied upon to support applications for withdrawal of Credit, and adequate documentation has been maintained to support these claims;
5. Procurement has been carried by BAPEPS in line with the agreed procedures as detailed in the Project legal agreement and the Procurement Manual;
6. 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; and
7. 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 Chartered Accountant firm will provide separate Audit Reports on the Annual Project Financial Statements for BKBDP and a separate Audit Report on the consolidated Annual Financial Statement for BAPEPS.

6. Audit standards:

The 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 audit to reduce audit risk to an acceptable level that is consistent with the objectives of the audit. Although the primary responsibility for preventing irregularities and fraud, or ensuring that the Credit proceeds are used for the purposes as required in the legal agreement 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.

7. Scope and Suggested Methodology for conduct of Audit

The audit will be carried out in accordance with the standards of auditing generally accepted in India, and will include such tests and controls as the auditor considers necessary to apply under the circumstances. In conducting the audit, special attention should be paid to the following:

- a) Project funds have been used by BAPEPS and the sub-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 and only for the purposes for which they were provided;
- c) The expenditures claimed through IUFs and withdrawal applications are eligible within the legal agreements and the extent to which the IUFs 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 IUFs. Clear linkages exist between the books of account and the IUFs.
- 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. For this purpose, the auditor will select a sample of procurement cases under the Project (other than cases that were under Prior Review of the Bank) and check procurement documents and assets created so as to ascertain the robustness of procurement system in the accordance with the checklist suggested in *Annexure 2*. The Auditor will describe the sampling methodology that they have followed, in the Management Letter. Additionally, the auditor will review the complaints related to procurement, if any, and mention how these were addressed/action taken;
- f) Reasonable physical verification of the assets under construction (or already constructed), as may be deemed necessary, should be conducted by the auditor. The auditor should also peruse the technical reports with a view to review the observations with likely financial

observations, review their resolution and assess the impact of unresolved observations on the PFS.

- g) In case BAPEPS has implemented internal audit, review the Internal Audit reports, consider the key internal audit observations (including systemic and recurrent) and the adequacy of their resolution. The auditor will ascertain the likely impact of the pending internal audit observations on the Project.
- h) Review the adequacy of the implementation of the Financial Management Manual and Procurement Manual and report on any material deviations.
- i) An assessment of the adequacy of the Project financial management system, including internal controls has to be done. 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 were lacking; and in particular will review and report on the following aspects:
 - Whether the project expenditure are made through the dedicated accounts, opened specially for the project after proper approval.
 - Review the adequacy of the contract management procedures including (a) internal controls in respect of verification/ approval of contractor bills including timeliness of payments; (b) compliance with the terms and conditions of the contract agreement; (c) maintenance of documents and accounting. Whether adequate contract records have been maintained by the Implementing Agencies namely BRPNL, WRD, RWD, Department of Agriculture and Animal and Fish Resources Department (including Contract Bonds, Contract Register, Running Bills, Guarantee Register and original Guarantee Bonds).
 - Whether adequate controls are exercised in completion of Road & Bridges. Auditor should also review the reports submitted by TPQA employed by the BAPEPS.
- j) Review the adequacy of governance mechanisms within the organization such as meetings of the Governing Body and Executive Committee Board, approvals of contracts as applicable in relation to the implementation of the project, and report on any material observation.

8. Financial Reporting Framework

The audited PFS of should be accompanied by the Audit Report (see Para 10 below) thereon and include below: -

- a) **Receipt & Payment Account** for the period under audit that would include a summary of funds received, and the payments made;
- b) **Income & Expenditure Account** for the period under audit giving a summary of Income & Expenditures of the project;
- c) a **Balance Sheet** as on the last day of the period under audit showing accumulated Funds of the Project, bank balances other assets of the project, and liabilities;

- d) a **Statement of Significant Accounting Policies** adopted for the preparation of the PFS;
- e) **Explanatory Notes** to the financial statements, if any; and
- f) A **list of all individual World Bank Withdrawal Applications** by specific reference to the number and amount filed by the project during the audit period and status of their reimbursement.
- g) A **Statement of Reconciliation of Claims to the World Bank to Total Applications of Funds**: should be annexed to the PFS showing a reconciliation between the “amounts 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, IFRs or direct reimbursement) should be indicated.

The annual audited PFS would separately identify each component under the project, its progress and the funding sources for each of the components.

Management of BAPEPS is expected to provide a **Management Assertion Letter** with the PFS. This will include 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. A suggested format is given in the *Annexure 3*.

The PFS should be signed both by authorized signatories of BAPEPS and a Partner of the Audit Firm (except the Management Representation Letter which will be signed by BAPEPS’s authorized signatories only).

9. Interim Unaudited Financial Reports(IUFR)

In addition to the audit of the PFS, the auditor is required to audit all IUFRs submitted to the World Bank used as the basis for the submission of withdrawal applications during the period under audit. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These expenditures should be carefully compared for project eligibility with the relevant financing agreements, and with reference to the Project Appraisal Document (PAD) for guidance when considered necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. The total withdrawals under the IFR procedure should be part of the overall reconciliation of Bank disbursements described above.

10. Audit Report:

The Chartered Accountant firm will provide separate Audit Reports on the Annual Project Financial Statements for BKBDP and a separate Audit Report on the consolidated Annual Financial Statement for BAPEPS.

The auditors will prepare an audit report on the PFS in accordance with the Standards of Auditing promulgated by ICAI. Those standards require a clear written expression of opinion

on whether the financial statements give a true and fair view relating to the financial statements taken as a whole.

Besides a primary opinion (true and fair view) on the PFS, the auditors will provide, in the opinion paragraph of their Audit Report, their professional opinion on whether:-

- The project funds were utilized for the purposes for which they were provided.
- Expenditures, including assets created under the project, shown in the PFS 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;
- Expenditure reported in the interim Unaudited Financial Reports (IUFR) are in agreement with the books of account and the IUFRs can be relied upon to support applications for withdrawal of Credit, and adequate documentation has been maintained to support these claims;
- Procurement has been carried by BAPEPS in line with the agreed procedures as detailed in the Project legal agreement and the Procurement Manual; and
- 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.
- 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 Chartered Accountant firm will also provide Audit report under section 12A (b) of the Income-tax Act, 1961.

11. Management letter:

In addition to the audit report on the PFS, the auditor will also prepare and submit along with the audit report a Management Letter for each period covering the audit. The Management Letter will elaborate the findings of the audit and contain recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination. The Management Letter would include matters such as the following:

- Observations on deficiencies/weakness on the accounting records, systems, and controls that were examined during the course of the audit and management's response to these together with specific recommendations for improvement.;
- Specific deficiencies and areas of weakness in systems and controls identified during the audit and recommendation for their improvement;
- Elaboration of the audit qualifications, if any, made in the audit report;
- Degree of compliance of the financial covenants in the financing agreements;
- Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project;

- Adequacy of compliance with previous audit findings/recommendations in the Audit Report/Management Letter and status of any issues which remain to be addressed and any issues which recurred;
- Bring to the Management’s attention any other matter (s) that might have a significant impact on the implementation of the project or that the auditor considers necessary and pertinent.

The Management Letter should contain an Executive Summary including a table of observations and audit recommendations along with response of the Management and a timeline for completing the action recommended.

12. Periodicity of the Audit and Timeline for submission of Audit Report:

The audit will be conducted on an annual basis and audit reports will be submitted by the auditor’s latest by 24th December of each Financial Year of FY 2018-19 & FY 2019-20 so as to submit these to the World Bank by 31st Dec i.e. within 9 months of the close of the financial year. The Audit report has to be provided well within this timeline.

The audit team will comprise, at the minimum, the following personnel who would be evaluated-

S. No.	Key Professional	Description of services to be provided	Qualification & Experience	No. of Persons	Total Expected man days for FY 2018-19 & 2019-20
1.	Engagement Partner and Team Leader	Overall coordination and planning, team leadership, reporting, liaison with client.	Qualified Chartered Accountant. Minimum 10 years post qualification experience as practicing Chartered Accountant and minimum 5 years continuously with the firm.	1(One)	16
2.	Audit Team Manager	Responsibility to lead the audit team in the field, planning and execution of audit, discussion with head of offices at State unit and Nodal Offices, DPIUs of	Qualified Chartered Accountant. Minimum 5 years of post-qualification experience and minimum three	2 (Two)	48

		Implementing Agencies and Divisional Offices of the implementing agencies namely the BRPNNL, RWD and WRD, AFRD & DoAg and report writing and finalization.	years continuously with the firm.		
3.	Audit team Seniors	Audit of SPMU and field level audit of DPIUs of Implementing Agencies, as well as Nodal Offices and Divisional/field Offices of the implementing agencies namely the BRPNNL, RWD, WRD, AFRD and DoAg/	C. A. (Inter) with at least two years' post training experience in accounting, audit and report writing.	4 (Four)	152
Total expected man days					216

Note: - The Firm may propose other audit staff/article trainees as per their assessment.

13. Review of Auditor's work:

The Auditor's work will be reviewed by a Quality Review Committee. The auditor is expected to comply with the directions of the quality review committee 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.

14. 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 disbursement, procurement and financial management and reporting and auditing). The auditor would be provided copies of the Financing Agreement and Project Agreement, Minutes of Negotiations, Disbursements Letter, Emergency Project Paper/Project Appraisal Document, Operations Manual, Financial Management Manual, Procurement Manual, Parent-Child accounting and other relevant guidelines, policies and procedures issued by the Project.

The auditor has to ensure adherence to the rules, regulations, code of conduct and ethics as prescribed under The Chartered Accountant Act, 1949 while carrying out the audit.

Units under BKBDP**Nodal Offices and Divisional Offices of the Implementing Agencies namely BRPNNL, RWD, WRD, AFRD and DoAg at Patna and Districts' locations are as follows:**

- (a) A State Project Management Unit (SPMU) is established at BAPEPS, Patna
- (b) Nodal Offices and Divisional Offices of the Implementing Agencies namely the BRPNNL, RWD, WRD, Department of Agriculture and Animal & Fish Resources Department at Patna and district's locations, as follows:

S. No.	Department / Agency	Nodal Office	Divisional / Field Office
1.	Bihar Raj Pul Nirman 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.	Department of Agriculture	Patna	5 DPIUs and 57 block offices
5.	Animal and Fish Resources Department	Patna	5 DPIUs and 57 block offices

Annexure 2

Checklist for review of Procurement system adopted by BAPEPS/IA's

Aspects	Comments and Findings
Procurement Documentation (Filing)	
Advertising for Invitation of bids	
Price of bid document	
Time allowed for submission of bids	
Response to queries received before bid submission	
Bid opening (Public) & minutes of bid opening	
Bid security records	
Bid evaluation process and report, verify existence of bids	
Name of bidders	
Level of participation in bidding (no. of bid documents sold, numbers of bids received)	
If lower bidder rejected, the reasons	
Name of Contractor	
Contract document (quality, essential clause)	
Financial Negotiations (if carried out)	
Disclosure of contract award information	
Time taken in bid evaluation	
Advance payment guarantee details and records	
Performance security details and records	
Protests and other matters	
Contractual completion date	
Any indicator of splitting of purchase	
Actual completion date	
Liquidity damages details and enforcement for delays	
Timeliness of payments	
Other matters	
Compliance with agreed provisions – Yes or No (Explain)	
Specific observations on Procedure, Technical specification, Missing information, Pre-bid conference, Question/Complaints, Delays, Participation, Bid Evaluation, Asset Verification etc.	

Format of a Management Representation Letter

This representation letter is provided in connection with your audit of the Project Financial Statements of the _____ **Project under Loan No.** _____ (the Project) for the year ended on _____ for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Project as of and of the expenditure and sources and uses of funds for the year then ended. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the basis of accounting followed by the BAPEPS, 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.
- Assets shown on the project balance sheet exist, are owned by the project, and are used solely for project purposes.
- The proceeds of the Loan provided by the World Bank have been used only for the purposes for which they were granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.
- Project expenditures are eligible for financing under the Loan Agreement.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.
- Procurement has been done as per the agreed procedures.
- We have made available to you all books of account and supporting documentation relating to the project.
- We have made available to you all procurement documents relating to the project.
- All complaints received and subsequent correspondence thereof has been made available.
- The project has complied with the conditions of all relevant legal documents, including the Concession Agreement, Subsidiary Loan Agreement, Loan Agreement, Project Agreement, the Minutes of Negotiations, and the Project Implementation Manual and also the Project Appraisal Document.

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