

Bihar Rural Livelihoods Promotion Society

Terms of Reference for Internal Audit of State Project Management Unit

1. Background

BRLPS is an independent and autonomous institution registered under the Society Registration Act 1860. BRLPS has been set up by the Government of Bihar as part of its strategy to address rural poverty through enhancing the livelihoods of the poor. Bihar Rural Livelihoods Promotion Society (BRLPS) is implementing multiple projects funded by the World Bank, Government of Bihar, Govt. of India through Community Based Organizations (CBOs) and nurturing institution of the poor by supporting formation, strengthening and empowering self-managed community organizations and adopting demand responsive and participatory processes. BRLPS will also facilitate participation of poor through forming producer groups and companies for key commodities – farm, off farm and non-farm products and services.

2. Objectives of the Society

The objectives of Society inter alia include:

- To contribute to the lives of rural poor across the state of Bihar through empowering and fostering strong self managed grassroots institutions and support investments by groups of poor.
- To promote microfinance institutions in order to deal with development of rural poor by way of providing financial assistance and obtaining commercial funding or by way of refinancing under the guidance of state level society with overall objective of developing microfinance sector in Bihar.
- To support village governance in becoming more responsive and effective in delivery of services and assisting rural poor especially the women.

3. Project Scope & Components

At present, the BRLPS is implementing central schemes namely NRLM, NRETP and its verticals funded by MoRD, state scheme namely BTDP(Bihar Transformative Development Project) supported by world bank and Satat Jeevikoparjan Yojana (SJY), covering more than 1.25 crores households through around 10,25,000 Self Help Groups (SHGs).

Besides the above, there are other schemes under Lohiya Swachch Bihar Abhiyan (LSBA) for which BRLPS has been designated as nodal agency since 2016. This project is implemented in all the 38-Districts of Bihar under active participation of DRDAs and District Project Co-ordination units of Jeevika (DPCUs). The main schemes under LSBA are –

- a) SBM-G - (Swachch Bharat Mission- Grameen),
- b) SBM-G-EBR - (Swachch Bharat Mission- Grameen-Extra Budgetary Resource)

- c) SBM-G-PIG-NARSS (Swachh Bharat Mission- Grameen-Performance based incentive grant- National Annual Rural Sanitation Survey)
- d) NNP / LIS – (Neer Nirmal Pariyojana),
- e) LSY – (Lohiya Swachta Yojana),
- f) GAP – (Ganga Action Plan),

4. Implementation Arrangement

The Bihar Rural Livelihoods Promotion Society under the administrative Control of Rural Development Department, Govt. of Bihar is led by its General Body, from which a more functional Executive Committee has been formed for taking all policy level decisions and advising the functionaries over the management of Bihar Rural Livelihoods Promotion Society. Representatives from the Government of Bihar, civil society, banks, and developmental institutions form the executive committee of the Society.

State Level: At the state level, the **State Project Management Unit (SPMU)** has been formed and staffed with a team of dedicated development professionals. The society is headed by **Chief Executive Officer**.

District level: The District Project Manager heads the DPCU with primary responsibility of Coordinating with their Blocks for effective implementation and convergence with ongoing Government Programme in the district.

Block Level: The Block Project Manager heads the BPIU and is responsible for implementing the projects / Schemes in concerned BPIU. BPIU will work very closely with the Community based organizations (CBOs).

At the community level the project will be implemented through the following community-based institutions:

- a) Self Help Groups
- b) Village Organizations (federation of a group of SHGs)
- c) Cluster Level Federation (federation of Village Organizations).
- d) Producers Groups / Producers' companies.

5. Objectives of the Audit:

The objectives of the internal audit are to enable the auditor to express a professional opinion on the effectiveness of the overall set in financial management and procurement arrangements. It has to be ensured that the overall financial management and arrangements including the system of internal controls as documented in the Project Financial Management Manual (FMM), Community Operations Manual (COM), Procurement Manual and the Project Implementation Plan (PIP) are in practice, effective and adequate. It is expected that the process of audit shall be in position to provide to project management with timely information on financial management aspects of the projects, including internal controls and compliance with financing agreements, to enable follow-up action.

In addition, it is expected that internal audit should play a role in assisting management to prevent mis-utilization of funds including the prevention, detection and investigation of fraud as part of “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

6. Coverage and Standards for the Audit: The internal audit should be carried out in accordance with the Auditing & Assurance Standards prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the auditor considers necessary under the circumstances.

The audit would cover the Internal Audit of SPMU (**covering all projects/mission/Govt. department program which is implemented by BRLPS**) head office and compilation / consolidation of District audit report on quarterly basis. **After submission of DPCU audit report, the Head office auditor will consolidate the observations made therein. The HO auditor will consolidate all the pending issues of the DPCUs. The auditor is required to visit various field office and other agencies / partners.**

Audit would also cover the contract with other SRLMs and such other input based consultancies or other contracts that may be entered into by the SPMU. The Auditor will submit the Annual Audit Report for the concerned SRLMs as required.

The HO/SPMU Internal Auditor will have to prepare uniform format for DPCU audit report and provides general guidelines to the DPCU auditor to facilitate a uniform approach to the audit and reporting.

7. Scope

It is expected from the auditor that hundred percent payment/adjustment vouchers must be verified and authenticated by the auditor. Specific areas of coverage of the audit will include the following:

7.1 Project level SPMU:

In conducting the audit, special attention should be paid to assessing whether adequate controls have been established and complied with to ensure that:

- (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;
- (b) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via Interim unaudited Financial Reports (IUFR). To ascertain that IUFR are as per books of records of SPMU and as reported by DPCUs.
- (c) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- (d) Project assets are adequately safeguarded and used solely for their intended purposes; and
- (e) Risk assessment report be prepared by the auditor in the first quarterly report:
 - (i) Identifying what are the risks in the project.
 - (ii) Assessment of risk (High, Medium, Low).
 - (iii) Ensure that there is an appropriate response to all risks.
 - (iv) Informing the authority about the risks which are outside acceptable limits, usually those which are to be tolerated or taken for the potential risk.

Coverage of audit

- a) 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, plan 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, security and effectiveness of the operation of the computerized system and,
- b) Efficiency and timeliness of the funds flow mechanism at the SPMU and DPCUs. (Through compilation and consolidation of report till district level.)
 - c) Whether the accounts of the project are compiled in a timely manner and the expenditures consolidated on a monthly/quarterly basis at the SPMU level.
 - d) 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.
 - e) Goods, works and services financed have been procured in accordance with the SRLM/World Bank procurement guidelines, procurement manual of the society, Bihar financial rule and financing agreements as the case may be;
 - f) All necessary supporting documents, records, and accounts of all project activities have been kept in respect of all project activities and that clear synchronizations exist between accounting records, accounts books and the periodic financial reports (internal and external i.e. Interim Financial Reports)
 - g) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets.
 - h) All funds received under the project have been used in accordance with the financing agreements, with due attention to economy, efficiency and effectiveness, and only for the purposes for which the financing was provided;
 - i) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.
 - j) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.
 - k) Internal auditors to summarize key issues and risks from a review of DPCU audit report

7.2 Compilation and consolidation of Reports received from DPCU Auditors

- a) Ascertaining that the audit report are received within stipulated period.
- b) Quarterly compilation & consolidation of Audit report received from District auditors.
- c) **Auditor will submit Project wise quarterly audit report and annual Report of the Society.**

8. Data, services and facilities to be provided by the Client:

- a. All the project documents, copy of agreement and relevant papers needed for Audit will be provided by the BRLPS. The auditor would be given access to all documents, correspondence, and any other information relating to the Project and deemed necessary by the auditor for carrying out audit.
- b. The auditor would be provided copies of the Project Implementation Plan, Project Appraisal Document (PAD) of the World Bank, Development Credit Agreement and Project Agreement with IDA, the Community Operations Manual, and Financial Management Manuals, guidelines, policies and procedures issued by Project Management and the relevant World Bank policies and guidelines.
- c. SPMU auditor will orient the DPCU auditors on different projects schemes and its components. This orientation programme will be organized by the BRLPS. It will be mandatory to attend by all team leaders.

9. Period, Timing and Coverage of Internal Audit

The Internal Audit of SPMU will be for the period from 1st April 2022 to March 31, 2023 and will be carried out on a quarterly basis. The contract may be renewed after assessing the project's needs and performance of the auditors for further year/s on same terms & conditions.

The auditor should become familiar with the Project and with the relevant policies and guidelines of the World Bank, GoB, GoI and other funding agencies (including those relating to disbursements, procurement and financial management and reporting).

The selected firm(s) will submit audit plan in consultation with SPMU in advance. The audit will be carried out on a quarterly basis.

10. Reporting

10.1 **Quarterly Reporting:** The Auditors will provide project wise quarterly Audit report and a summary of the key findings, implications and recommendations to enable the Project Management to take timely action. The report should be discussed and agreed with the BRLPS and should be structured in a manner giving the observations, the implications of the observations, the suggested recommendation and the management comments/ agreed actions. The audit observations should be supported by instances and quantified, as far as practicable.

The audit reports (consolidated & compiled with DPCU audit report) should be submitted within stipulated period as mentioned in general clause of TOR. The reports will be consisted as follows:-

- The Project Management Letter to the Chief Executive Officer.

In addition, the internal auditor should provide an Executive Summary highlighting the critical issues which require the attention of the CEO of the BRLPS and the status of actions on the previous recommendations.

The BRLPS has implemented e-audit modules to review the audit observations and status of the compliances made by the units. The internal auditors will upload the soft copy of internal audit reports duly signed by the auditors in PDF format and also report their major audit observations as specified in e-audit module. Concerned unit will upload their reply in e-module which will be duly checked by concerned SFM and forwarded the same to the auditor.

Based on satisfactory compliance, Auditor will drop the audit para and in case of unsatisfactory compliance the same may be forwarded to CFO. The time line for above compliances are as below

| Sl.No. | Particulars | Time line |
|--------|---|--|
| 1 | Uploading the audit report/observations by the auditor | On or before due date for submission of audit report |
| 2 | Audit compliances by the district unit | Within 10 working days from the date of submission of audit report |
| 3 | Checking of compliance by SFM | Within 5 working days from the date of submission of audit compliance by the district. |
| 4 | Acceptance/rejection of audit compliance by the auditor | Within 6 working days from the date of forwarding the audit compliance by the SFM to the auditor |

For this purpose, login ID/password will be provided to the auditor by the BRLPS. Auditor should change their password after first login. Date of submission of audit report will be uploading the audit report/Submission of major audit observations in e-audit module or submission of hard copy of report which-ever is latter.

10.2 Format of the Audit Report: The Audit Report will, inter alia, have the following sections -

- Executive Summary;
- Serious observation;
- The status of implementation of the schemes / project;
- The status of compliance of the previous audit reports;
- Any other issues/recommendations/suggestions for improvements.

10.3 Auditing Procedures

Procedure of conducting audit at SPMU

1. The auditor should give detailed work plan on week before conducting the audit of SPMU.
2. The auditor should make audit program and plan for SPMU in coordination with the finance team of BRLPS.
3. Feedback as necessary can be given to the management on the outcome of the Audit from time to time. Information about any discrepancies can be shared with the management for rectification/clarification.
4. During the audit the internal Audit team shall interact with management staff for any clarification
5. The auditor shall interact with the management before furnishing of any report.
6. The detail approach and methodology should be provided by the auditor themselves in the RFP.

11. Composition of review committee and review procedure to monitor consultants work

The proposed assignment will be reviewed and monitored by a review committee on a quarterly basis and take further remedial measures on the discrepancies pointed out in internal audit constituted by BRLPS. A nodal person will be deputed to interact with the Auditor.

12. KEY PERSONNEL

The list of key personnel's whose CVs and experience would be evaluated is as follows:

| S.No | Key Professionals | Description of Services to be provided | Experience | No. of persons | Total Expected Man-days |
|------|---------------------------|---|--|----------------|-------------------------|
| 1 | Partner/Audit Team Leader | Overall coordination, & planning, team leadership, reporting, liaison with client | Qualified Chartered Accountants with at least 5 years experience as audit team leader in | 1 | 25 |

| | | | | | |
|---|-------------|---|--|---|----|
| | | .Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices. | internal / concurrent audit of Govt. Organization/PSUs/externally aided project with ability to lead the team and interact with senior level govt. officials | | |
| 2 | Team member | Vouching verification of books of records, statutory compliances as per guidelines/office order and applicable statutory provisions to the society. | CA (Inter) with 2 yrs.experience in internal audit in similar type organization and well versed with vouching,verification, statutory compliances, physical verification of inventory/assets, skill of report writing etc. | 4 | 80 |

Auditor will have to submit the CV of team leader and Team member with one coloured photo, educational qualification and experience certificate along with RFP.

13. **General**

1. Time lines of conducting the audit will as follows:

| Quarter | Period of Audit | Time line for District Auditors | Time line for SPMU Auditor |
|-----------------|--|---------------------------------|-------------------------------|
| 1 st | 1 st April 2022 to 30 th June 2022 | 15 th July 2022 | 20 th July 2022 |
| 2 nd | 1 st July 2022 to 30 th Sep 2022 | 15 th October 2022 | 20 th October 2022 |

| | | | |
|-----------------------------------|---|-------------------------------|-------------------------------|
| 3 rd | 1 st Oct 2022 to 31 st Dec 2022 | 15 th January 2023 | 20 th January 2023 |
| 4 th and Annual Report | 1 st Jan 2023 to 31 st Mar 2023 | 30 th April 2023 | 5 th May 2023 |

1. Final report of the audit will be submitted as per the timelines indicated above. The written acceptance of the report by the BRLPS will be considered as submission of the Report.
2. Any change in the members due to unavoidable circumstances, will only be done by the Audit Firm after seeking prior no objection from the BRLPS. The change member should be of similar or higher qualification and experience. Any change in team without no objection from BRLPS will not be eligible for audit.
3. Audit report format will be provided by head office auditor to DPCU auditor, for proper consolidation and compilation of audit at Head office.

Format of Audit Report

Part A: Executive Summary including Suggestions/Recommendations

Provide an Executive Summary of the observations in Part A along with suggestions/recommendations. Only those observations that are very serious in nature and require immediate attention of the management should be reported in this section. Auditor should provide specific recommendations on referred issues.

Part B: Observations related to procedural lapses and weaknesses

In this part, give details of audit observations such as ineligible expenses, major lapses in internal controls, systemic weaknesses, procurement procedures etc.

1. Auditor should point out the issues like cash defalcation, payment made without any approval and beyond the limit of devolution of powers and any other matter which auditor deemed necessary.
2. Auditor should report the persisting irregularities which have been raised earlier but not complied.
3. Books of Account

Under this Auditor should verify all the books of account maintained by the unit, identify the discrepancies in the books of accounts and also suggest their improvement.

4 Internal Control System

Under this Para, auditor should report on discrepancies of current internal control system and suggest remedial measure.

5 Compliance with Finance Agreement, Project agreement PIP, PAD and FM Manual / devolution of power

Under this Para, auditor should comment on deviation from Finance Agreement, Project agreement, PIP, PAD and FM Manual.

6 Procurement Procedures

Under this paragraph auditor should report on procurement process which deviate from World Bank procurement guidelines.

7 Advance to staff and others and its periodicity

8 Deviation in Statutory deduction/ deposits / return filling on IT-TDS, GST-TDS , EPF , Professional Tax and their compliance

9 Employee benefit in the light of HR and approval from competent authorities

10 Verify and certify the IUFR from available books of records

1) Check the accuracy of quarterly IUFR from tally data / BRS etc.

11 Tracking of financial variance – Variance showing physical and financial achievement in the light of approved action plan and budget.

12 Whether Office has maintained proper records showing full particulars including quantitative details and situation of Fixed assets/stocks? All fixed Assets and stock must be physically verified by the auditor on quarterly basis.

13 Any other matter :

Any other matter / suggestion which auditor deems fit for notice to the management.