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Terms of Reference

**For appointment of a Chartered Accountant Firm
For Statutory Audit of Accounts of _____ State AIDS Control Society under the NACP-Phase IV
program for the year 2014-15 (Financial Audit)**

Background

The _____ State AIDS Control Society is a registered Society which is implementing the Centrally Sponsored Programme of National AIDS Control Programme (NACP-IV) being implemented by National AIDS Control Organisation (NACO), Department of Aids Control (DAC) as per the memorandum between the Government of India and State Government. Funds are received from the sources: World Bank and Domestic Budget pooled together known as Pool Funds and from the Global Fund for HIV/AIDS, TB & Malaria in channels called Rounds. All of which together constitute the NACP IV financial envelope.

Programme Objectives

The key programme objectives of NACP-IV are

1. Reduce new infections by 50% (2007 baseline of NACP III).
2. Provide comprehensive care and support to all persons living with HIV/AIDS and treatment services for all those who require it.

To achieve the above objectives, the following key strategies have been identified.

1. Intensifying and consolidating prevention services with a focus on HRGs and vulnerable population.
2. Expanding IEC services for (a) general population and (b) high risk groups with a focus on behavior change and demand generation.
3. Increasing access and promoting comprehensive care, support and treatment.
4. Building capacity at National, State, District and facility levels.
5. Strengthening Strategic Information Management Systems.

Objective of Audit

The objective of the audit of the Financial Statements (Balance Sheet, Income and Expenditure and Receipts and Payments) is to enable the auditor to express a professional opinion on the financial position of the _____ State Aids Control Societies or Municipal Aids Control Societies at the end of each financial year and of the funds received and expenditures for the accounting period ended March 31, 20____, as reported by the Financial Statements fund wise (Pool Fund and Round wise in case of GFATM). The SACS/MSACS accounts (books of account) will provide the basis for preparation of the Financial Statements and are established to reflect the financial transactions in respect of the project.

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Scope

The audit will be carried out in accordance with Audit & Assurance Standards of Auditing issued by Institute of Chartered Accountants 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:

- (a) An assessment of the adequacy of the project financial management arrangements, including internal controls. This would include aspects such as (i) adequacy and effectiveness of accounting, financial and operational controls and needs for revision of the same, if any; (ii) level of compliance with established policies, plans and procedures; (iii) reliability of accounting systems, data and financial reports; (iv) methods of remedying weak controls or creating them where there are none, and; (v) verification of assets and liabilities. This assessment is required to be carried out for each every year of project implementation and specific comments on these aspects are required to be provided by the auditor annually in the Management Letter;
- (b) All funds sent by GOI/ State Society as grant-in-aids should be appropriately classified as (i) Utilized; and (ii) Un-utilized. Utilization of funds shall be recognized as expenditure based on actual amount spent in accordance with the conditions as laid down in the Project Implementation Plan and relevant financial agreements (World Bank/ GFATM agreements, etc) and only for the purposes for which the funds were provided.
- (c) All funds have been used in accordance with the relevant financial norms and financial regulations with due attention to economy and efficiency, and only for the purposes for which they were provided.
- (d) All expenditure, including procurement of goods and services has been procured in accordance with relevant provisions of the Procurement Procedures prescribed for the program. Proper documents, namely purchase orders, tender documents, invoices, vouchers, receipts, pay bills, TA bills etc. are duly maintained and linked to the transactions.
- (e) All the goods procured and issued are supported by valid receipt and issue documents and are recorded in the stock/ inventory registers and the closing balances worked out correctly. Special attention is needed on payment through cash and comment on adequacy of limit on cash payment is therefore solicited.
- (f) Expenditure incurred with reference to the budget allocation approved by NACO/DAC. In case the budget allocation is exceeded, proper re-appropriation duly approved by the competent authority has been obtained.
- (g) The expenditures reported as per the quarterly IUFRC/CPFMS are in agreement with the audited expenditure/ books of accounts and variances are documented.
- (h) An assessment of closing advances including staff advances. Present an ageing report of the outstanding advances for more than one year.
- (i) An assessment of the compliance of previous audit observations raised, if any. The audit report should include a separate Para in this regard.
- (j) Based on the assessment of the adequacy of the internal audits of the peripheral units/ NGOs the auditor should cover a sample, not less than 10% of total SACS contracted NGOs and 5% of the peripheral units other than NGOs. The auditor would need to physically visit the various field offices. The details of coverage of NGOs/ peripheral units should be separately indicated in the Audit Report.

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Method of sampling for SACS contracted NGOs: Out of 10% the NGOs to be audited, 5% (in number) will be the NGOs to whom highest Grant in aid (GIA) (annual contract value) is being provided and the remaining 5% of the sample shall be selected by the auditors (rational to be provided in the audit report) in consultation with the SACS. On annual basis, atleast 50% of the audited NGOs should be new and the remaining may be those covered in the audit of the previous year.

Method of sampling for peripheral units other than NGOs: On a yearly basis 5% (in number) of the total peripheral units to whom funds are being transferred during the year of audit, for implementing program activities. The sample shall be selected by the auditors (rational to be provided in the audit report) in consultation with the SACS preferably the selected units shall be the one with highest grants/ budget released by SACS. On annual basis, atleast 75% of the audited peripheral units should be new and the remaining may be those covered in the audit of the previous year.

Financial Statements

The financial statements should include:

- (a) A summary of funds received, showing the grant in aid from GOI and funds received from other sources, donors, if any separately;
- (b) A summary of expenditures shown under the main project activities of expenditures; and
- (c) A Balance Sheet showing accumulated funds of the project, bank balances & other assets of the project, and liability, if any.

Reconciliation with the Financial Reports

In addition to the audit of Financial Statements, the auditor is required to audit the Interim Unaudited Financial Reports (IUFs) used as the basis for the disbursement by the World Bank and the Round wise IUFs of the GFATM. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These should be carefully compared for project eligibility with the relevant financing agreements and the Project Implementation Plan for guidance when considered necessary. The following are required to be annexed to the Project financial statements:

1. When ineligible expenditures, if any, are identified as having been included in the withdrawal applications, these should be noted separately by the auditor in an annexure.
2. The amount of expenditure reported in the IUF should be reconciled with the amount appearing under the summary of expenditures of the receipts and payments statement.

Audit Opinion

Besides a primary opinion on the Financial Statements, the audit report of the Society Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures shown in the Statements of expenditure and the extent to which the Donor/Agency can rely on IUF's as a basis for reimbursement.

Time Period for Submission

The audited financial statements including the audit report and management letter should be sent as within 60 days from the close of the financial year.

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Management Letter

In addition to the audit reports, the auditor should prepare a "management letter" fund wise (Pool Fund, Round wise of the GFATM and for DBS) in which the auditor should:

- Give comments and observations, if any, on the accounting records, systems and controls that were examined during the course of the audit;
- Identify specific deficiencies and areas of weakness (if any) in systems and internal controls and make recommendations for their improvement including adequacy of control over peripheral units and NGOs: where a sample of peripheral units are covered by the auditor, the observations, if any, on such units should be listed in an annex.;
- Comment on the adequacy of segregation of duties in the SACS.
- Report on the degree of compliance with the financial/ internal control procedures as documented in the financial manual of the project & NGO/CBO guidelines.
- Report any procurement which has not been carried out as per the procurement manual issued by NACO.
- Report inappropriate cash payments, if any.
- Compliance of previous audit observations raised in management letter by previous auditor.
- Comment on the adequacy of the system of adjustment of advances including staff advances.
- Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the society; and
- Bring to attention any other matter that the auditor considers pertinent.

The observations in the Management Letter must be accompanied by a suggested recommendation from the auditors along with management comments both on the observations and suggested recommendations.

General

The auditor should be given access to all legal documents, correspondence, financial manual, procurement manual, NGO/CBO guidelines and notices from NACO and any other information associated with the project and deemed necessary by the auditor.

Key Resources:

As the project is being implemented by a registered society within the Government, it is a pre-requisite that the key personnel should be familiar with the government accounting and financial procedures. The table below sets out minimum team requirements:

S.no	Key professionals	Description of services to be provided	Experience	No. of persons and person days (per state depends on size & expenditure incurred by that state)
1	Partner/Audit Manager	Overall coordination, & planning, and team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 15 years of experience as a partner with expertise in the area of statutory audit planning, execution and reporting	1 person 02 - 08 days

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	Audit Team Leader	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussions with head of office at state and report writing and finalization	Qualified Chartered Accountants with at least 7 years of experience in statutory audit with expertise in procurement audit desirable and with ability to lead the team and interact with senior level government officials	1 person 05 - 20 days
3	Team Member (qualified CA)	Field level audit (including visits to a sample of NGO/ peripheral units)	Person with experience in General Financial Rules, budgets, and financial rules of the Govt. experience in procurement audit desirable	Sufficient numbers 05 - 20 days
4	Team Member (article clerk)	Field level audit (including visits to a sample of peripheral units)	Assistant with experience in internal audit and report writing. Experience in procurement audit is desirable.	Sufficient numbers 05 - 20 days

Period of appointment

Period of appointment of auditor shall be initially for a period of one year, and if services are found suitable, the appointment may be extended further on an annual basis but for a maximum of three years in totality. Performance shall be primarily assessed on the basis of quality and timeliness of the report. Further, based on the performance assessment, extension/ re-appointment letter shall be issued for the second and the third year. A cooling period of 2 years may be kept for CA firms who have audited a particular SACS continuously for a period of three years.

Selection Method

Selection may be made following the Quality and Cost Based Selection (QCBS) method as per paragraph 2.1 of the Guidelines: Selection and Employment of Consultants by World Bank Borrower.

In QCBS method, the combined Quality and Cost Score is arrived at by weighting the quality and cost scores in the ratio of 80:20, respectively for Technical and Financial Scores. The appointment shall be done by following two stages 1) Expression of Interest (EoI) and 2) Request for Proposal (RfP).



**AUDIT REPORT (Pool Fund)
Project Financial Statement)**

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The Project Director,

AIDS Control Society,

Introductory Paragraph

We have audited the accompanying financial statements of the National AIDS Control Project - Phase IV (financed under World Bank Credit No.....) as of March 31, 20... Our responsibility is to express an opinion on these financial statements based on our audit.

Scope Paragraph

We conducted our audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants 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. An audit includes examining, on a test basis, evidence supporting the amounts, review of internal controls and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion Paragraph

In our opinion, the financial statements, read with observation, if any, give a true and fair view of the Sources and Application of Funds and the financial position ofState Aids Control Society for the year ended March 31, 20..., in accordance with consistency applied accounting standards.

In addition, (a) with respect to IUFRs, adequate supporting documentation has been maintained to support the IUFRs; (b) which expenditures are eligible for financing under the Credit/Grant Agreement (c) procurement of goods and services has been carried out as per the procurement manual issued by NACO, GOI and NGO/CBO guidelines.

[Name and Address of Audit Firm]

[Date - Completion Date of Audit]

Notes:

1. A "Source and Application of Funds" statement is always required for each project. A balance sheet is also required where the project has assets and liabilities.
2. In case a qualified opinion or disclaimer is given by the auditor, the audit report should state in a clear and informative manner all the reasons for such an opinion.
3. Audit report has to be accompanied by
 - a) Management Letter
 - b) Listing on ineligible claims, if any.
 - c) Reconciliation of expenditure as per IUFR with the actual expenditure as reported in the audited financial statements.
 - d) Annexure on whether there are any exceptions with adherence to the procurement procedures.

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**INTERNAL AUDIT OF NGOs/CBOs/DAPCU/PERIPHERAL UNITS
UNDER THE STATE AIDS CONTROL SOCIETY (SACS)
UNDER THE NATIONAL AIDS CONTROL PROGRAMME PHASE-IV**

The internal audit will be carried out on a concurrent quarterly basis and will cover a sample of NGOs and district units/sub district units selected on a percentage basis. It should be conducted so as to cover all districts and peripheral units at least once in 3 years. It should be ensured in the internal audit that the prescribed accounting system including regular bank reconciliation is strictly followed. This will include physical verification of assets, inventories etc. A sample questionnaire (checklist) is provided below.

In States where there is a large number (more than 25) of NGOs/CBOs, separate auditors/panel of auditors may be appointed for on-site audit of NGOs. In States where the number of such NGOs/ CBOs is less than 25, the internal auditor of SACS may also cover NGOs

Timing for audit and submission of the audit report

Quarter of audit ending	Audit of NGOs, DAPCU and peripheral units	Submission of report
June	July 16 to 30	August 15
Sept	Oct 16-30	Nov 15
Dec	Jan 16 -30	Feb15
March	April 16 -30	May15

Outputs that will be required of the Internal Auditor

The internal auditors should furnish a quarterly audit report (alongwith the checklists) to the State Project Director with an executive summary of the critical issues/ finding that require attention of the senior management. A copy of the executive summary must be sent to NACO and a copy of the report must also be placed with the Executive Committee of SACS. The report should be structured in a manner giving the observations/ weaknesses, the implications, suggestions for improvement and the management comments. The status of the actions taken by the management on the recommendations of the previous report should also be provided,

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ANNEX: CHECKLIST FORMAT

S.No	Activity	Particulars	Y	N	Remarks
	N/A	<p><u>Selection PM</u></p> <ul style="list-style-type: none"> • Is there a TDU to support NGO/CBO activities and does it have a finance staff? • Has the financial management capacity of the NGO been assessed by the TDU and the process documented during the selection process? • Are there any critical PM capacity issues identified during selection process? How are these issues planned to be addressed? • Are contract files maintained properly? • Does the contract with the NGO contain the Financial Management report? <p><u>PM Staffing and Training</u></p> <ul style="list-style-type: none"> • Does the NGO/CBO have the required PM staff? Has the current staff been trained on financial management under the project? <p><u>Flow of Funds</u></p> <ul style="list-style-type: none"> • Are the funds released to NGOs in compliance with the contractual obligations and in adherence to the NGO/CBO guidelines? Also, comment on timeliness of releases by SACS. • Are funds released to the NGO/CBOs without settlement of previous advance or without receipt of quarterly financial report? <p><u>Accounting</u></p> <p>Are accounts maintained as per the requirements of NGO/CBO Guidelines? Are the accounts updated?</p>			

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		<p><u>Financial Reporting</u></p> <ul style="list-style-type: none"> • Check SOEs submitted during the period under audit against books of accounts and certify the correctness of the SOEs and eligibility of expenditure • Is the NGO/CBO timely in submitting financial reports to the SACS? Please comment on the reasons for delay and period of delay. In case of delay, what actions are being taken by the NGO/CBO to address this issue? <p><u>Internal Audit - Compliance</u> Has the NGO/CBO submitted timely and satisfactory compliance on the audit of previous period (s)?</p> <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Have annual audited financial statements received by SACS from the NGOs? <p><u>Recovery from NGOs</u> Were any recoveries made from the NGOs pursuant to audit objections?</p> <p><u>Review by TSU</u></p> <ul style="list-style-type: none"> • Are on-site visits to the NGOs made by the finance staff of the TSU? • Is the financial review of NGOs by the TSU adequate in terms of the quality and frequency? 			
2	Peripheral Units	<p><u>Sanction/Flow of Funds</u></p> <ul style="list-style-type: none"> • Has a sanction letter been issued to the peripheral unit for the proposed activity? • Are the financial management, financial reporting and date of settlement of advance indicated in the sanction letter? • Is the settlement of advance received by peripheral units from SACS done on time and is it supported by a proper utilization certificate? 			

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		<ul style="list-style-type: none"> • Are subsequent tranches released to the peripheral units without settlement of the first advance? <p><u>Financial Reporting</u></p> <ul style="list-style-type: none"> • Check SOEs/UCs submitted during the period under audit against books of accounts and certify the correctness of UC/SOE and eligibility of expenditure • Comment on the quality and adequacy of the financial records maintained by the peripheral units (for the sample covered during the course of quarterly internal audit). Attach a separate sheet where necessary. • Comment on internal controls e.g., cash payments above the limit, proper authorization of payments etc. 			
	Payments and receipts	<ul style="list-style-type: none"> • Are the payments for expenditures in line with the approved annual work plan? • Are the payments properly approved in line with the financial delegation? • Are the supporting documents adequate, filed properly and easily accessible? • <i>Salary Payments</i>: are payments supported by adequate and updated staff records (signed contracts, attendance register etc.)? • Comment on timeliness of payments, including salary payments • Is there a serial control over payment, receipt and journal vouchers? • Are the expenditures/ payments charged to the correct account code and head of expenditure? • Is the system generated voucher used as the basis for approval of payments? • Comment on the process flow and what improvements can be made. 			
4	Overall Monitoring of advances	<ul style="list-style-type: none"> • Is the system for monitoring and control of advances (including staff 			

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		<p>advance) adequate? Are advance registers updated?</p> <ul style="list-style-type: none"> • Is there a large number of overdue advances? • Is an ageing report generated for review by the project director on a periodic basis? • Are adequate actions taken by NGO/peripheral units for recovery of advances? 			
5	Operation of bank account.	<ul style="list-style-type: none"> • Is there a dedicated bank account for the project and are all cheques signed by two signatories? • Is the bank reconciliation carried out on a monthly basis and checked and signed by the signatories? • Are there any un-reconciled or un-accounted for balances? • Are payments made by crossed cheque/ draft? • Is there adequate physical control over cash, receipt books and blank cheque books? 			
6	Fixed Assets and Stocks	<ul style="list-style-type: none"> • Have the procurement procedures prescribed in the Procurement Manual followed by the NGOs for procurement of assets? • Are these supported by adequate and valid supporting documents? • Are the assets procured documented in the fixed assets register mentioning location etc? • Carry out a sample verification of fixed assets in NGOs/CBOs and the peripheral units/ DAPCU. • Are assets received in kind also recorded in the fixed asset register, mentioning the date of receipt, location etc? • • Has any material been purchased for the activity? • Has the purchased material been entered in the stock register? Is it upto 			

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		date and physical stock is in agreement with book balances? • Is there a regular system of annual physical verification of assets and six-monthly verification of stocks?			
7	Other Issues	Any other issues that the firm may like to address			

Signature of the CA Firm