

DRAFT TERMS OF REFERENCE

Hiring the Services of *Statutory Auditors for Karnataka State Rural Livelihood Promotion Society*

1. Background

Government of Karnataka is implementing a project funded by the World Bank through Karnataka State Rural Livelihood Promotion Society. Karnataka State Rural Livelihood Mission has been set up by the Government of Karnataka as part of its strategy to address rural poverty through enhancing the livelihoods of the poor. KSRLPS is an independent and autonomous institution registered under the Society Registration Act. The strategy highlights building of pro-poor local institutions/groups through nurturing institution of the poor by supporting formation, strengthening and empowering self-managed community organizations and adopting demand responsive and participatory processes.

2. Objectives of the Project

“To reduce poverty by enabling the poor households to access gainful self-employment and skilled wage employment opportunities, resulting in appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots institutions of the poor.”

3. Project Scope & Components

It is envisaged that the project, to be implemented over a period of 5 years, will cover around 80 lakhs Target families in 5621 Villages in 176 Blocks spread over 30 districts. The broad components of the project are Social mobilization, Institutional Building and Capacity building, Financial Linkage, Skill Development and placement, Rseti's (Rural Self Employment Training Institutions), livelihood initiatives, Innovations, Mahila Kissan Shashaktikaran Project (MKSP). Details are as follows

3.1 Social Mobilization: To begin with, NRLM would ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the Self Help Group (SHG) network in a time bound manner. Subsequently, both women and men would be organized for addressing livelihoods issues i.e. farmers organizations, milk producers' cooperatives, weavers associations, etc. All these institutions are inclusive and no poor would be left out of them. NRLM would ensure adequate coverage of vulnerable sections of the society such that 50% of the beneficiaries are SC/STs, 15% are minorities and 3% are persons with disability, while keeping in view the ultimate target of 100% coverage of BPL families.

3.2 Institution Building: As it is the core concept of NRLM, capacity building of SHG members and their leaders will be given due attention. Active women from SHG, Women PRI representatives, village leaders and Gram Panchayat and other grass root members will be given intensive sensitization to NRLM. Along with mobilization and capacity building of poor government sponsored programs for SHG members will be mobilized to make SHG more vibrant and sustainable. KSRLM proposes to have a 4 tier CBO structure starting from the Self Help Group

(SHG) (10- 15 women members) and 5-20 SHGs form a Ward level federation at the Ward level and Ward level federation representatives will form Gram Panchayath Level federation GPLF . GPLF will consist of 6-8 WLF. The GPLF will be register under Karnataka Societies Act 1960.WLF and GPLF will General body Executive committee and various sub-committees.

3.3 Financial Inclusion: Banks have a very important role in providing financial services to the rural poor. It starts with providing services of opening savings accounts for community groups, SHGs and institutions of the poor; deposit savings; provide credit etc KSRLM is required to establish strategic partnerships with major banks and insurance companies at various levels, to create a supporting environment for banks/insurance companies and the poor for a mutual rewarding relationship.

The key features of financial inclusion strategy:

- ✓ 'Bank Mitras' (customer relationship managers selected from among the community) as being positioned in Bihar and Andhra Pradesh will be replicated after sufficient discussion with a partner banking organization to provide the required assistance to the community.
- ✓ Introduction of standard micro planning format for all the SHGs to mitigate challenges with the banks to get the loan. Also, standard books of records in line with banks expectation will be developed.
- ✓ Organizing an exposure visit of the bankers from the chosen blocks to Resource Organization missions to enable them to understand potential business opportunities for their banks if they support SHGs

3.4 Entrepreneurship: The development of rural economy provides entrepreneurial opportunity in service, manufacturing and small business sectors. Hence, there could be two categories of entrepreneurs- (a) individual entrepreneurs (b) Group enterprises like producers collectives in value chains. Principle interventions proposed would include Skill gap study and opportunity sensing survey, Identification of youth for skill training, Soft and hard skill training in specific service and manufacturing sectors and mentoring support from established entrepreneurs. This training will be followed by immersion visits.

3.5 Training and Capacity Building: NRLM would ensure that the poor are provided with the requisite skills for: managing their institutions, linking up with markets, managing their existing livelihoods, enhancing their credit absorption capacity and credit worthiness, etc. A multi-pronged approach is envisaged for continuous capacity building of the targeted families, SHGs, their federations, government functionaries, bankers, NGOs and other key stakeholders. Particular focus would be on developing and engaging community professionals and community resource persons for capacity building of SHGs and their federations and other collectives. NRLM would make extensive use of ICT to make knowledge dissemination and capacity building more effective.

3.6 Mahila Kisan Sashaktikaran Pariyojana (MKSP): To improve the present status of women in Agriculture, and to enhance the opportunities for her empowerment, Government of India has announced “Mahila Kisan Sashaktikaran Pariyojana” (MKSP), as a sub component of the National Rural Livelihood Mission (NRLM). The primary objective of the MKSP is to empower women in agriculture by making systematic investments to enhance their participation and productivity, as also create and sustain agriculture based livelihoods of rural women. The MKSP will form self-help groups (SHG) exclusively of rural women farmers and help them in skill development.

Ministry of Rural Development (MoRD) provided funding support of up to 75% to the project submitted by the State Governments/PIAs under MKSP. Balance is to be contributed by the respective state governments or any other donor agencies, national and international. MKSP will be implemented indirectly through a Project Implementing Agency (or NGO). Project Period is of three years.

3.7 Revolving Fund and Capital Subsidy: Subsidy would be available in the form of revolving fund and capital subsidy. The Revolving Fund would be provided to the SHGs (where more than 70% members are from BPL households) as an incentive to inculcate the habit of thrift and accumulate their own funds towards meeting their credit needs in the long-run and immediate consumption needs in the short-run. Subsidy would be a corpus and used for meeting the members’ credit needs directly and as catalytic capital for leveraging repeat bank finance. Capital Subsidy fund would be given directly to the SHGs or would be routed to the SHGs through the federations, wherever the SHGs desire such an arrangement. The key to coming out of poverty is continuous and easy access to finance, at reasonable rates, till they accumulate their own funds in large measure.

3.8 Universal Financial Inclusion: NRLM would work towards achieving universal financial inclusion, beyond basic banking services to all the poor households, SHGs and their federations. NRLM would work on both demand and supply side of Financial Inclusion. On the demand side, it would promote financial literacy among the poor and provides catalytic capital to the SHGs and their federations. On the supply side, it would coordinate with the financial sector and encourage use of Information, Communication & Technology (ICT) based financial technologies, business correspondents and community facilitators like ‘Bank Mitras’. It would also work towards universal coverage of rural poor against loss of life, health and assets. Further, it would work on remittances, especially in areas where migration is endemic.

3.9 Provision of Interest Subsidy: The rural poor need credit at low rate of interest and in multiple doses to make their ventures economically viable. In order to ensure affordable credit, NRLM has a provision for subsidy on interest rate above 7% per annum for all eligible SHGs, who have availed loans from mainstream financial institutions; based on prompt loan repayment (This would not be

applicable when a SHG avails capital subsidy under SGSY. Interest subsidy would be provided to this SHG, when they avail a fresh loan after repaying the capital subsidy linked loan under SGSY). This subsidy would be available to SHGs, up to loan limit of 3.00 lakhs where at least 70% of the members of a SHG are from BPL households. The Interest Subsidy is available only if the loan accounts are regular. Additional interest subvention of 3% is being extended to the promptly repaid SHGs. This 3% is applicable for 1.00 lakh SHGs only. Additional Interest Subvention of 3% is borne by Government of Karnataka.

3.10 Livelihoods: Poor have multiple livelihoods as a coping mechanism for survival. Their existing major livelihoods are: wage labour, small and marginal holding cultivation, cattle rearing, forest produce, fishing, and traditional non-farm occupations. The net incomes and employment days from the current livelihoods are not adequate to meet their expenditures. NRLM would look at the entire portfolio of livelihoods of each poor household, and work towards stabilizing and enhancing the existing livelihoods and subsequently diversifying their livelihoods.

3.11 Skills and Placement Projects: NRLM would scale up the existing skill and Placement projects through partnership mode as one of the best investments in youth, and provide impetus to livelihoods opportunities in emerging markets. For strengthening this, various models of partnerships with public, private, non-government and community organizations would be developed. A strong relationship would also be developed with industry associations and sector specific employers' associations. National Skill Development Corporation (NSDC) would be one of the leading partners in this effort. 15% of the central allocation under NRLM is earmarked for this purpose.

3.12 Rural Self Employment Training Institutes (RSETIs) NRLM encourages public sector banks to set up RSETIs in all districts of the country. RSETIs transform unemployed rural youth in the district into confident self-employed entrepreneurs through need-based experiential learning programme followed by systematic handholding support. Banks are completely involved in selection, training and post training follow-up stages. RSETIs partner with others, including the institutions of the poor, to realize their mandate and agenda.

3.13 Innovations: NRLM believes that successful innovations can reduce the learning curve for poverty eradication by showing a different pathway out of poverty. 5% of the Central allocation is therefore, earmarked for innovations. Those innovations, which have the potential for reaching out specifically to the poorest or for reaching out to the largest number of poor and having maximum impact with limited resources, would be preferred and supported.

4. Implementation Arrangements

State Level: At the state level, the State Mission Management Unit (SMMU) has been formed and staffed with a team of dedicated development professionals. The project and the KSRLPS is headed by a Mission Director.

District level: At district level District Mission Management Unit (DMMU) is established in 5 intensive districts with a team of dedicated development professionals. The Chief Executive Officer of Zilla as District Mission Director heads the DMMU with primary responsibility of Coordinating with their Taluks for effective implementation and convergence with ongoing programmes in the district.

In 25 non-intensive districts, mission is headed by the Chief Executive Officer of Zilla Panchayath with support of existing DRDA's.

Taluk Level: At Taluk level, Taluk Mission Management Unit (TMMU) has been established in 20 intensive taluks with team of dedicated professionals. The Executive Officer of Taluk Panchayath is Taluk Mission Manager heads the TMMU.

In remaining 156 taluks, Executive Officer of Taluk Panchayath heads the taluk mission with the existing staff.

5. Funds flow arrangement

The funds flow process is depicted below:-

- (1) GOI to SMMU: Based on approval of Annual Action Plan, Central share of NRLM and NRLP funds shall be provided to Government of Karnataka. Government of Karnataka then releases funds to Karnataka State Rural Livelihoods Promotion Society along with the state matching contribution. When the funds are received from State Government, the same shall be booked in SMMU books of accounts.
- (2) Further, the SMMU releases funds to implementation units viz., DMMUs, Zilla Parishads. The DMMUs and ZPs shall release funds to BMMUs to take up mission activities and also release community funds to the CBOS viz., SHGs, Ward Level Federations and GP level federations.

6. Disbursement of funds to DMMU

- On receipt of Funds from Central / State Government, the funds shall be transferred to DMMUs based on the target fixed in various installments in respect of scheme components and staff and operating cost in four installments (on quarterly basis).
- The MD shall have the power to release the funds fully / partially to DMMU.
- The Accountant shall prepare a TV (Transfer Voucher) for the amount approved by SPM (F)/CFO and prepare a letter to the bank requesting transfer of funds from SMMU SB Account to the respective DMMU SB

Account. State Programme Manager (Finance) shall countersign the Transfer voucher and obtain the signature of the MD on the letter, to the bank.

- State Programme Manager (Finance) shall be responsible to follow-up with the Bank and ensure that the funds are transferred to DMMU.

State Programme Manager (Finance) shall intimate the respective Districts the amount of funds released and other details of account transferred by letter /registered post/courier/e-mail.

The community support funds like Revolving Fund, Community Investment fund is released to community based organizations either directly by SMMU or through DMMU as per the norms.

Disbursement of funds from DMMU to TMMU/Cluster office

On receipt of funds from SMMU, the funds shall be transferred to TMMUs /Cluster office to meet their petty cash expenditure

- The Designated authority shall be responsible to follow-up with the Bank and ensure that the funds are transferred to TMMU./Cluster office
- The Designated authority shall intimate the respective TMMUs/Cluster offices of funds released and other details of account transfer by letter /registered post/courier/e-mail.

7. OBJECTIVES OF AUDIT

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion as to whether

- (1) The PFS give a true and fair view of the sources and applications of project funds for the period under audit examination;
- (2) The funds were utilized for the purposes, for which they were provided,
- 3) The procurement procedure prescribed in the Procurement Manual has been followed; and
- (4) Expenditures shown in the PFS of the Society are eligible for financing/funding under the relevant programme/project as per the guidelines.

In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management, 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 KSRLPS and its constituent state, district and taluk level units.

8. AUDIT STANDARDS

The audit will be carried out in accordance with the Auditing Standards promulgated by the Institute of Chartered Accountants of India. The auditor should

accordingly consider materiality when planning and performing the audit to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of credit/loan proceeds for purposes other than as defined in the legal agreement remains with the borrower, the audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

9. AUDIT SCOPE

In conducting the audit of all the districts and DMMU's, special attention should be paid to the following:

- Whether all external funds have been used in accordance with the conditions of the relevant legal agreements and only for the purposes for which the financing was provided. Relevant legal agreements.
- Whether effective project financial management systems', including internal controls, were in operation throughout the period under audit examination. 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 them where there are none; verification of assets and liabilities; and integrity, controls, security and effectiveness of the operation of the computerized system; and
- Whether counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- Whether all necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via Interim unaudited Financial Reports (IUFRRs) where applicable. Clear linkages should exist between the books of account and reports presented to the Bank; certification of IUFRR and financial report reconciliation.
- Whether the project accounts have been prepared in accordance with the accounting principles defined in the Project Financial Manual and give a true and fair view of the financial position of the project at the year end and of resources and expenditures for the year ended on that date; and
- Whether goods and services financed have been procured in accordance with the procurement procedure prescribed in the Procurement Manual.
- Whether compliance with all the applicable legal requirements are met.

10. Data Series and facilities to be provided

The auditor shall be given access to any information relevant for the purposes of conducting the audit. This shall normally include all legal documents, correspondence, Annual Financial Statements of the Project and any other information associated with the project and deemed necessary by the auditor. The information made available to the auditor shall include, but not be limited to,

copies of the Bank's Project Appraisal Document, the relevant Legal Agreements, a copy of these Guidelines, and a copy of the Bank's Financial Management Assessment of the project entity. It is highly desirable that the auditor become familiar with other Bank policy documents, such as OP/BP, the Bank's internal guidelines on Financial Management that include financial reporting and auditing requirements for projects financed by the World Bank. The auditor shall also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor.

11. Reports and Schedule of Deliveries

i) Financial Statements: The Audit is required to certify the Financial Statements as under:

(A) Receipts & Payments Account, Income & Expenditure Accounts and Balance Sheet of the Society and the separate schedule showing the receipts and payment, Income and Expenditure and Balance Sheet of NRLP, NRLM and other projects implanted by KSRLPS showing implementation unit wise details.

(B) Reconciliation of Claims to Total Applications of Funds under the NRLP/NRLM

(C) Other Statements or Schedules which may include:

- A separate schedule showing implementation unit wise cumulative project expenditures by Project Component/Sub-components;
- A detailed list showing implementation unit wise assets created or purchased from project funds.

(D) Management Assertion: Management should sign the project financial statements and provide a written acknowledgement of its responsibility for the preparation and fair presentation of the financial statements and an assertion that project funds have been expended in accordance with the intended purposes as reflected in the financial statements. An example of a Management Assertion Letter is shown at *Annexure I*.

ii) Statements of Expenditures and Financial Management Reports

In addition to the audit of the Project Financial Statement (PFS), the auditor is required to audit all Statements of Expenditures (SOE) and/or Financial Management Reports (FMR) for withdrawal applications made during the period under audit examination. The auditor should apply such tests as the auditor considers necessary under the circumstances to satisfy the audit objective. In particular, these expenditures should be carefully examined for project eligibility by reference to the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor and highlighted in the report.

iii) Audit Report

- An audit report on the project financial statements should be prepared in accordance with the Auditing Standards promulgated by the ICAI. Those standards require an audit opinion to be rendered related to the financial statements taken as a whole, indicating unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion. In addition, the audit opinion paragraph will specify whether, in the auditor's opinion,
 - (1) The funds were utilized for the purposes, for which they were provided,
 - (2) Expenditure shown in the PFS are eligible for financing under the relevant loan or credit agreement and, where applicable,
 - (3) The IUFs submitted during the period are supported by adequate detailed documentation maintained in the project accounting offices.

A sample audit report wordings are shown at Annexure II

- Immediately after conducting audit in DMMU and TMMU, the auditors shall discuss the content and findings of the audit with the District Programme Manager and at the SMMU with State Programme Manager - Finance & Additional Mission Director before preparing the audit report.

MANAGEMENT LETTER

In addition to the audit report on the project financial statements, the auditor will prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination, possibly including matters such as the following:

- Give Comments and Observations on the accounting records, systems, and controls that were examined during the course of the audit
- Identify specific deficiencies and areas of weakness in systems and controls and make recommendations for their improvement.
- Report on the degree of compliance of each of the financial covenants in the Loan Agreement and give comments, on matters affecting such compliance
- Communicate matters that have come to attention during the audit which might have significant impact on the implementation of the project;
- The status of recommendations from previous management letters, including any issues which remain to be addressed and any issues which recurred

- Bring to KSRLPS attention any other matters that the auditor considers pertinent.

A sample covering letter that could be used to transmit a management letter is shown at Annexure III.

PERIOD, TIMING AND SAMPLE COVERAGE OF STATUTORY AUDIT

The auditor shall have to audit the accounts for the Financial Year 2014-15 and certify the /Financial Statements including FMR of different projects.

The auditors should prepare their financial proposal figure based on the volume of work as stated below: The audit will be carried out on a yearly basis as given below:

Units	No of units in FY 2014-15	Remarks
State level	1 SMMU	SMMU, located at Bangalore
Districts level	5 intensive districts with DMMU setup	DMMU is setup only in intensive districts like Gadag, Koppal, Mysore, Tumkur and Uttar Kannada. The Statutory Audit shall visit all the DMMU office for the purpose of Audit. Expenditure at the DMMUs. During the FY 2014-15, Expenditure related to Revolving fund, Community Investment Fund (CIF), Rseti's, Rajiv Gandhi Chaitanye Yojane, training expenses and other expenditure project components.
	25 non intensive districts	Remaining 25 districts are non-intensive without any DMMU setup as of now. The Expenditure related to Revolving Fund, Ranjiv Gandhi Chaitanya Yojane funds, RSETIs, SHG training and Data base management and others.
Taluk	20 intensive taluk with TMMU setup in those talukas	20 taluks are intensive, TMMU has been setup. The Expenditure related to Revolving Fund, Ranjiv Gandhi Chaitanya Yojane funds, SHG training and Data base management and others.

	156 non intensive talukas without TMMU setup	Remaining 156 taluks are non-intensive without any TMMU setup as of now. The Expenditure related to Revolving Fund, Ranjiv Gandhi Chaitanya Yojane funds, SHG training and Data base management and others.
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Auditors while auditing must ensure to cover at least 60% out of the total number of SHG's have received the revolving fund as per the criteria set by the SMMU. However, the sample size may be agreed during the discussion and approval of audit plan.

9. Timing: The audit would be carried out annually and the report should be provided to the SMMU latest by August end, each year to facilitate approval and placement before the Executive Committee and submission to the World Bank by September 30 each year. The auditor must submit three copies of the audited accounts and audit report to MD at State office (SMMU) in time. However, **the audit of 2014-15 financial years must be completed latest by 15th August 2015.**

10. Period of Appointment: The auditor will be appointed for the period of one year. May be extended for two more years based on the performance of the audit and concurrence of higher authority

11. KEY PERSONNEL

The list of key personnel who shall be deputed for this Contract shall be as follows

S.No	Key Professionals	Description of Services to be provided	Minimum Experience	No. of Persons	Total Expected Man days
1	Audit Manager/Partner	Overall coordination, & planning, team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 10 years' experience as a partner with expertise in the area of statutory audit planning, execution and reporting.	1	8man days

2	Audit Team Leader -1	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at DMMU, DRDA's& state units and reporting writing and finalization.	Qualified Chartered Accountants with at least 5 years' experience in internal audit and external audit with ability to lead and team and interact with senior level govt officials	1	10 man days
3.	Audit Team Leader -2	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at DMMU, DRDA's& state units and reporting writing and finalization.	Qualified Chartered Accountants with at least 5 years' experience in internal audit and external audit with ability to lead and team and interact with senior level govt officials	1	10 man days
II	Non Key Professionals				
4	Team member	Audit of DMMU and DRDA's TMMU	CA (Inter) with experience in Accounting ,audit and report writing	10	240 man days for audit of 2014-15.
	Total Expected Man Days				268 days

The audit firm should provide CVs of Audit Manager, Audit Team leader -1 and Audit Team leader -2, key personnel who are expected to be engaged in audit work for evaluation purpose by KSRLM.

Role of the Principal Auditor: When using the work of qualified auditing staff in his office , the principal auditor shall ordinarily perform the following procedures: (a) advise his auditing staff , the use that is to be made of the other auditing staff work and report and make sufficient arrangements for coordination of their efforts at the planning stage of the audit; and (b) advise the auditing staff about the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them. Other important points of consideration may include the following:

- The principal auditor shall consider the significant findings of the auditing staff ;
- There should be sufficient liaison between the principal auditor and others auditing staff ;

Role of the auditing staff: The auditing staff may bring to the principal auditors' immediate attention any significant findings requiring to be dealt with at the entity level, adhering to the time table for audit of the component¹. The other auditor shall ensure compliance with the relevant statutory requirements.

General

The Auditor will be given access to any information relevant for the purposes of conducting the audit. This would normally include all legal documents, Correspondence and any other information associated with the project and deemed necessary by the auditor. The Information Made available to the auditor should include, but not be limited to the relevant legal agreements, Financial Management manual for NRLP, Financial Rules, Procurement Manual and Annual Plan of KSRLM. The Project will also provide relevant documents, if any, required by the auditor.

Annexure I

Example of a Management Assertion Letter

(Project Letterhead)

(To Auditor)

(Date)

This assertion letter is provided in connection with your audit of the financial statements of the _____ Project for the year ended _____. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the cash basis of accounting followed by the Government of India, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

- The project financial statements are free of material misstatements, including omissions.
- Project funds have been used for the purposes for which they were provided.
- Project expenditures are eligible for financing under the Loan/Credit agreement.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.
- Procurement procedures as prescribed for the project have been followed. • We have made available to you all books of account and supporting documentation relating to the project.
- The project has complied with the conditions of all relevant legal agreements, including the Financing Agreement, the Project Agreement, the Project Appraisal Document, and the Project Implementation Plan.

(State Programme Manager (Finance))

(Mission Director)

Annexure II

MODEL AUDIT REPORT – UNQUALIFIED OPINION'

Address

Introductory Paragraph

We have audited the accompanying financial statements of the KSRLPS for NRLP Project of MoRD as of March 31, (any other additional years necessary) for the year(s) then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope Paragraph

We conducted our audit in accordance with Auditing and Assurance Standards 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 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 give a true and fair view of the Sources and Application of Funds and the financial position of KSRLPS Project for the year ended March 31,, in accordance with relevant national standards. We are also satisfied that the procurement procedure prescribed in the Procurement Manual under KSRLPS has been followed. In addition, (a) with respect to IFRs adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) which expenditures are eligible for financing under the Loan/Credit Agreement [1 (c) the IFR submitted and procedure and internal controls involved in their preparation can be relied upon to support the withdrawals.

[Name and Address of Audit Firm]

[date – Completion Date of Audit]

[Auditor's Address] [date]

Annexure III

Example of a Management Letter

(Audit firm Letterhead)

(Date)

To Project Management,

In connection with our audit of the financial statements of the KSRLPS Project for the Year ended _____, we familiarized ourselves with Project documents the internal guidelines and circulars applicable during the period under audit. We also reviewed the business of the Project and evaluated the accounting systems and related internal controls of the Project in order to plan and perform our audit.

This Letter to Project Management includes observations noted during the course of our audit examination in the following areas:

- Matters having a significant impact on the implementation of the Project
- Opportunities for strengthening financial management records, systems and controls, together with recommendations for improvement
- Status of maintenance of Project books and records
- Accuracy of Project financial statements
- Compliance with prescribed procurement procedures

Compliance with legal requirements applicable to the Society

- Status of prior audit recommendations

The matters contained in this Management Letter are intended solely for the information of Project management, for such timely consideration and action as Project management may deem appropriate. They have all been considered by us in formulating the audit opinion expressed on the project financial statements in our audit report dated _____ and they do not alter the opinion expressed in that audit report.

We wish to take this opportunity to thank Project Management for the courtesies and cooperation extended to our auditors.

Yours truly,

(Name and Title)

Annexure IV

Suggested Procurement audit check list related to Goods/Works

Once contracts for goods/works have been selected for detailed audit review the following check list / post review check list may be followed:

- 1) Date of audit.
- 2) Procurement by State/District/any other organization receiving project funds.
- 3) Description of items procured, quantity and estimated value.
- 4) Whether procedure laid down in the Manual was observed while procuring goods and works?
- 5) If not, any other, justification was available?
- 6) Whether bid was advertised/placed in public domain?
- 7) Whether sufficient time was given to bidders for preparing and submitting the bids?
- 8) Whether the bids were opened at the notified time in the presence of bidders?
- 9) Whether the bids were evaluated in terms of the provisions of the bid documents and the evaluation report was available?
- 10) Whether contract was awarded to the lowest evaluated responsive bidder fulfilling the qualification requirements indicated in the tender document?
- 11) Whether the contract was awarded within original bid validity period?
- 12) Whether the signed copy of the contract/purchase order was available?
- 13) Whether articles received/work completed in time?
- 14) Whether payment released timely to the supplier/contractor or valid reasons for delay?
- 15) Whether the assets procured are accounted for?
- 16) Whether any complaint was received regarding the procurement and was addressed?
- 17) Whether procurement related complaint handling mechanism as envisaged in the Project Implementation Plan is available?
- 18) Whether any procurement related irregularities reported in the previous audit report have been complied with?
- 19) Whether Performance Security was sought?

Procurement Audit check list related to Service Contract

Once service contracts have been selected for detailed audit review the following check list may be followed:

- 1) Date of audit
- 2) Procurement by State/District/any other organization receiving project funds
- 3) Whether the Terms of Reference covering the scope of work, time schedule, output required, etc were prepared?
- 4) Whether the Expressions of Interest were checked against advertisement and short list of service providers/consultants prepared?
- 5) Whether the Request for Proposals (RFPs) was issued to short listed service providers/consultants?
- 6) Whether sufficient time was given to service providers/consultants for preparing and submitting the proposals?
- 7) Whether the proposals were invited in two separate envelopes, one containing technical and another for financial proposals?
- 8) Whether the evaluation was done in two stages, first the evaluation of technical proposals and then opening of the financial proposals of only technically qualified service providers/consultants and reports are available thereof?
- 9) Whether the contract was awarded within the validity period of the original proposal?
- 10) Whether the signed copy of the contract was available?
- 11) Whether the services were completed within the prescribed time limit or valid reasons for delayed completion?
- 12) Whether payment was released timely to the service providers/consultants or valid reasons for delay?
- 13) In the case of single source selection, if there was justification for the purpose?
- 14) Whether any complaint was received regarding the procurement and was addressed?
- 15) Whether procurement related complaint handling mechanism as envisaged in the Project Implementation Plan is available?
- 16) Whether any procurement related irregularities reported in the previous audit report have been complied with?