Annexure-A

TAMIL NADU RURAL TRANSFORMATION PROJECT

TERMS OF REFERENCE FOR APPOINTING INTERNAL AUDITORS
FOR THREE YEARS FROM F.Y 2020-21, 2021-22 and 2022-23

1. Project Background:

Tamil Nadu Government has been focusing on poverty reduction since 1983 through socio-economic empowerment of women by establishing the Tamil Nadu Corporation for Development of Women (TNCDW). The key strategies for implementation are organizing poor women into Self Help Groups (SHGs) and development of women-based community institutions through financial and livelihood access. Tamil Nadu Rural Empowerment and Poverty Reduction Project (TNEPRP) and Tamil Nadu State Rural Livelihoods Mission (TNSRLM) project were launched in 2005 and 2011 respectively and both the projects are supporting the empowerment of the poor and improving their livelihoods by developing, strengthening and synergizing pro-poor community institutions/groups; enhancing skills and capacities of the poor (especially women, youth, differently-abled, and the vulnerable); and financing productive demand driven investments in economic activities.

The Tamil Nadu Rural Transformation Project (TNRTTP) will leverage the strategies and investments made in the above projects to harness the institutional and knowledge capital for promoting inclusive economic development and growth for a transformative agenda in rural Tamil Nadu.

2. Project Objectives:

The project development objective is to “Promote rural enterprises, access to finance and employment opportunities”. This is envisaged through business eco system development, enterprises promotion, business plan financing and skilling and employment generation in 120 blocks from 26 districts of Tamil Nadu.
The enterprise promotion component would aim to promote individual and group enterprises and by building effective market and institutional linkages. The group enterprises will be Enterprise Groups (EGs), Producer Groups (PGs) promoted at the village level and Producer Collectives (PCs) promoted at the block, sub-district or district level. EGs would be collective enterprises with maximum of 30 members promoted at village level, PGs would be primary level aggregation of producers who would be involved primarily in production activities, aggregation of produce and may be in the first level of processing. These institutions would be formed of producers involved in farm, off-farm and non-farm sectors. As per the need of the subsector/commodity, the PGs would be federated into PCs. The PCs would be supporting the producers in integrating with the market effectively, provide them with market intelligence and streamlined access to quality inputs. The promoted PCs would be responsible for procurement, processing and marketing of the produce of the PG members. The project plans to promote 7000 PGs and 50 PCs during the entire project time period.

3. The project implements the following four components:

1. Rural Enterprise Ecosystem Development
2. Enterprise Business Plan Financing
3. Skills and Job opportunities
4. Project Management

4. Implementation Arrangements:

The enterprise promotion activities will be led by the State Project Management Unit (SPMU) at the state level and District Project Management Units (DPMU) at the district level under the project to provide support in the areas of promotion of these enterprises. It will support these institutions to sustain on a profitable basis by addressing the issues of inadequate financing, common assets, lack of skill and technology, increasing market access, inadequate risk coverage etc. The team from TNRTP will comprise of one professional head at the State level, one lead person in the district and one person in the Block who will lead Promotion of Enterprise/Producer Groups and Producer Collectives. Makamai a Community Professional Learning and Training Centre (CPLTC) will play a major role in creating and
capacity building of a resource pool of Enterprise Community Professionals (ECPs). The Enterprise Community Professionals (ECPs) will mobilise the producers into PGs at the village level and link them to the One Stop Facility (OSF). The One Stop Facility is a small business facilitation cum incubation centre established at the block level, through which the rural enterprises can get access to a range of business development services.

5. Proposed Implementation/ Funds Flow Arrangements:

- Budgetary allocation made by the Government of Tamil Nadu to the State Society TNRTS against agreed budget lines. The World Bank will reimburse expenditure to the extent of 70% of agreed project costs. Such reimbursement shall be made on a quarterly basis and on the basis of the Interim Unaudited Financial Reports (IUFRs) submitted by the SPMU.
- Based on the project expenditure reported, the office of the CAAA, DEA – MoF, GoI will submit withdrawal applications to the Bank for disbursement. Bank will disburse funds to GoI which will in turn pass on these funds to GoTN to its Consolidated Fund, in accordance with its standard arrangements.
- GoTN shall provide funds for the project to SPMU through an annual budgetary allocation.
- SPMU shall submit reimbursement application to the World Bank on a quarterly basis for amounts spent for the project through IUFRs.
- DPMU shall, based on the approvals/proceedings received from SPMU, make withdrawals from the Bank account which shall be replenished from the SPMU Parent Bank account by the end of the day.
Flow of funds:

6. Objective of the Internal Audit

The objectives of the Internal audit are to: (i) enable the auditor to express a professional opinion on the effectiveness of the overall financial management and procurement arrangements of the project; (ii) whether 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), the Project Implementation Plan (PIP) are in practice, effective and adequate, commensurate to the nature of the operations and (iii) provide project management with timely information of financial management aspects of the project, including internal controls and compliance with financing agreements, to enable follow-up action.

This should include aspects such as adequacy and effectiveness of accounting, financial, procurement related and other 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.

The internal auditor shall provide the SPMU with timely information and recommendations on the financial management, procurement, project management and physical progress aspects of the Project to enable the management to take corrective measures, wherever necessary.
In addition, it is expected that internal auditor should play a role in assisting management to prevent mis-utilisation 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 & governance processes.

7. Method of selection:

The Internal Audit firm to be engaged for three years from 2020-2021 to 2022-2023 under the Quality and Cost Based Selection (QCBS) method of World Bank procurement guidelines.

8. Coverage and Standards for Audit

The audit would cover the entire project i.e., covering the implementing units at the **Project level(SPMU and 14 DPMU, including BPMU)** and the **Community Institutions (PG, EG and PC)** on a sample basis. The audit would also cover all consultancies or other contracts that may be entered into by the implementing agencies. 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.

Specific areas of coverage of the audit will include the following:

**Project level (SPMU, DPMU and BPMU):**

- 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.

- b) Efficiency and timeliness of the funds flow mechanism at the SPMU, DPMUs and BPMUs and to the Community Institutions.

- c) Whether the fund/tranche released to the Community Institutions are properly approved as per agreed procedures and having the necessary authority, and the conditions (triggers/graduation criteria) for fund release (as provided in the COM for various funds) have been complied and are in line with the financing agreement, with the World Bank.

- d) Whether the DPMU/BPMU is accounting for the sub grant releases properly in the subsidiary records and is monitoring the receipt of periodic reports
and utilization certificates from the community institutions & systems to follow up on overdue reports are adequate. Quantify (number and amount) of the funds transferred to the Community Institutions for which the reports and/or UCs are overdue.

e) Whether the accounts of the project are compiled in a timely manner and the expenditures consolidated on a monthly basis at the SPMU level.

f) An assessment of compliance with provisions of financing agreements (IBRD Financing Agreement and Project Agreement), especially those relating to procurement, accounting and financial matters.

g) Goods, works and services financed have been procured in accordance with the World Bank procurement guidelines, procurement manual of the project and financing agreements;

h) All necessary supporting documents, records, and accounts of all project activities have been kept in respect of all project activities and that clear synchronizations exists between accounting records, accounts books and the periodic financial reports (internal and external i.e. Interim Financial Reports).

i) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets and ensuring that there is a system of physical verifications of assets.

j) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.

k) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.

**Village Level:**

In case of audit of Community Institutions (PG/EG/PC) specific consideration will be given to the following -

a) Whether the PG/EG/PC have maintained/are maintaining the books/records to account for sub-grants received, and decisions taken are appropriately reflected in the Minute books.

b) Check sample of assets procured at the PG/EG level including those procured under funds - check whether inventory records are up to date and book balance agrees with physical stock balance.
c) The reports and other documents see, whether the reports submitted by the PG/EG/PC to the DPMU/BPMU form the basis of providing funds by the Project provide clear linkages with the books/records and reflect the correct position.

d) The transactions are supported with necessary documents/bills and vouchers and are approved by the competent authority and forum.

e) Goods, materials and services have been procured in accordance with the COM.

f) Balance in Bank accounts, with third parties and the Project are duly reconciled.

g) Whether Social accountability, transparency/ disclosure and social audit mechanisms, prescribed in the Manual, are being adhered to by the PG/EG/PC and the documentation exists as evidence of compliance. (please document the nature of evidence obtained)

9. Reporting and Audit Opinion

The internal auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusion on the efficiency and effectiveness of systems, processes and controls. Each report shall have the following sections:

- Introduction- Objective, scope, nature and coverage of the audit including period covered, locations reviewed, work carried out, staff involved, level of coverage of all listed aspects
- The internal auditor's opinion as to the overall adequacy of the systems of internal control,
- Key findings; separately for Financial Management, Procurement, Project Management and Others.
- Detailed internal audit findings, with adequate descriptions of weaknesses identified and the associated risk. This section will be supported with details, tables, annexure.
- Recommendations; separately for Procurement, Financial Management, Project Management & Institutional Aspects and Others.
- Responses to findings and recommendations by authorized persons stating the timeline for remediation and the person responsible
- Progress on earlier set of recommendations and constraints faced.
The Auditor will provide quarterly audit report and Executive Summary of the key findings, implications and recommendations of the critical issues preferably classified as per thematic area. The report should be discussed and agreed with the auditable units and should be structured to list 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. Copies of all internal audit reports shall be made available to the external auditors.

10. Timeline for Audit and Period of Contract:

The auditor will commence their audit immediately after the close of the quarter, complete the audit and submit their audit report within 45 days from the end of the quarter. The Internal Audit report will be addressed to the Chief Executive Officer at the SPMU.

The audit will be done as per the follows based on Internal Audit Calendar as follows:

<table>
<thead>
<tr>
<th>S. No</th>
<th>Period</th>
<th>Audit to be conducted in</th>
<th>No.of Districts /State</th>
<th>Submission of audit report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1st April – 30th June</td>
<td>July</td>
<td>25 (Dist.&amp; State)</td>
<td>15th August</td>
</tr>
<tr>
<td>2.</td>
<td>1st July – 30th September</td>
<td>October</td>
<td>25 (Dist.&amp; State)</td>
<td>15th November</td>
</tr>
<tr>
<td>3.</td>
<td>1st October - 31st December</td>
<td>January</td>
<td>25 (Dist.&amp; State)</td>
<td>15th February</td>
</tr>
<tr>
<td>4.</td>
<td>1st January – 31st March</td>
<td>April</td>
<td>25 (Dist.&amp; State)</td>
<td>15th May</td>
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</tbody>
</table>

The scope of the initial contract under this assignment will cover a period of Year 1 audit for the F.Y 2020-21 till 31st March 2021. Subject to satisfactory performance of the auditor and subject to additional funds being available under the project, the contract may be considered for extension another 1+1 year.

11. Composition of Review Committee to Monitor Internal Auditor’s Works:

The following officers will be on the committee to monitor Internal Auditor’s Report:

1. Chief Operating Officer (Project Management)
2. Associate Chief Operating Officer (Finance Management)
3. Associate Chief Operating Officer (M&E and MIS)
4. Deputy Chief Operating Officer (Accounts)
5. Deputy Chief Operating Officer (Procurement and Contracts)
6. Deputy Chief Operating Officer (Admin)

The Committee will review the audit report on quarterly basis and send the action taken report to the funding agency.
12. Support/Inputs to be provided by the SPMU

The internal auditor will be given access to all legal documents (Financing Agreement, Project Appraisal Document), Project Procurement Plan, and any other unclassified information associated with the Project and deemed necessary by the auditor. It is extremely important that the auditors become familiar with the Project Guidelines on Disbursements and Procurements. All these documents will be provided to the auditor by the SPMU.

13. Qualification and Team Composition:

Qualification and Experience of Internal Audit Firm (for shortlisting):

1. The Auditors shall be a firm of practicing Chartered Accountants empanelled with the Comptroller & Auditor General of India.
2. The firm shall have a standing of at least 10 years in the profession.
3. The firm shall have atleast 3 Fellow/Associate Chartered Accountants as partners.
4. The Firm shall have sufficient number of employees to handle the audit of the Project breakup details of (i) semi qualified & (ii) other staff (articled/ audit clerks, paid assistants to be furnished) total number preferably not less than 10 numbers.
5. The firm should have handled internal & statutory audit of atleast 20 Government Companies/Boards/Societies and shall be familiar with Government Rules & Regulations.
6. The firm should have handled audit of Externally Aided Projects preferably of a similar nature.
7. The firm shall not be involved in any legal cases in professional matters with its clients or others.
8. Has a Peer Review certification from ICAI

The Internal Auditor team must have considerable experience and expertise in conducting audits particularly on infrastructure development projects. The Consultants should also have experience in the process and audit practices of World Bank assisted projects. The list of professional required are given in the table below, only Curriculum Vitae’s and experience of key experts will be evaluated for selection purpose:
<table>
<thead>
<tr>
<th>S.No</th>
<th>Professionals</th>
<th>Description of Services to be provided</th>
<th>Experience</th>
<th>Estimated Man Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Team Leader - Audit &amp; Procurement</td>
<td>Overall coordination, &amp; planning, team leadership, reporting, liaison with client</td>
<td>Qualified Chartered Accountant with at least 10 years’ experience as a partner with expertise in internal audit procurement audit, auditing in PSU, government and infrastructure sector, audit planning, execution and reporting.</td>
<td>24 Days</td>
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<tr>
<td>2</td>
<td>Sr. Audit Manager – Procurement (1 number)</td>
<td>Responsibility of Review and check all the procurement is in accordance with World Bank guidelines at SPMU.</td>
<td>Public procurement consultant with at least 7 years of experience in Multi development banks projects. A Post graduation in finance / MBA finance / Qualified Chartered Accountants or similar qualifications. Experience in prior and post review of the public procurement is desirable.</td>
<td>12 Days</td>
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<tr>
<td>3</td>
<td>Audit Manager (2 number)</td>
<td>Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at district / state units and reporting writing and finalization.</td>
<td>Qualified Chartered Accountants with at least 5 years’ experience in internal audit, auditing in PSU, government and infrastructure sector with ability to lead a team and interact with senior level government officials</td>
<td>48 Days</td>
</tr>
<tr>
<td>4</td>
<td>Audit Assistant (6 number)</td>
<td>Vouching and verification of DPMU and SPMU books of accounts.</td>
<td>Semi Qualified Chartered Accountant (CA Inter/CA Final) with at least three years of experience in auditing.</td>
<td>216 Days</td>
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14. Reporting Format;

**Part-I: Serious Observations**
In this part, give details of serious audit observations such as ineligible expenses, major lapses in internal controls, systemic weakness, procurement procedures not followed etc.

**Part-II: Other Observations**
Observations that are not serious in nature, but nonetheless require the attention of the Projects or the GP should be detailed in this part.

**Part-III: Executive Summary to the project and Suggestions/Recommendations.**
Provide an Executive summary of the observations in Part A and B along with suggestions/recommendations. Only those observations that are dealt with in either Part A or part B should be included in this section provide specific recommendations on internal control and systemic weakness.

**Part-IV: Matters Requiring Immediate Attention**

a) **Matters Requiring Immediate Attention**
Auditor should point out the serious issue like cash defalcation, payment made without any approval and beyond the limit of devolution of powers, blank cheque signed and any other matter auditor deemed serious nature.

b) **Persisting Irregularities**
Under this para, auditor should report the persisting irregularities which have been raised earlier but not complied.

c) **Books of Accounts**
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.

d) **Internal Control System**
Under this para, auditor should report on discrepancies of current internal control system and suggest remedial measure.

e) **Compliance with financial manual**
Under this para, auditor should comment on deviation from finance Agreement, PIP, PAD and Finance manual

f) **Procurement Manual**
Under this paragraph auditor should report on procurement process which deviate from Bank procurement guidelines.
g) **Training expenses and its variance**
   Physical and financial achievement as per action plan and budget, verify the evidence of training and exposure from training and feedback from participants etc. and also comment on unit cost of training exposure.

h) **Computerised Financial Management system**
   Under this paragraph auditor should report on computerised accounting system.
   
   i. Accounting Entries in Accounting software up to date or not
   ii. Payroll accounting in accounting software or not
   iii. Verification of Chart of Accounts in accounting software
   iv. Cost centre
   v. Verification of computerised balance with Manual Books of accounts (Cash Book. Cheque issue register etc.)
   vi. Statutory deduction/ payments like income tax TDS, TDS on GST, EPF, professional Tax and its compliance.
   vii. Deduction and date of deposit with any irregularities.
   viii. Advance to staff and others and its periodicity (Age of advance).
   ix. Verify and certify the IUFR from available books of records.
   x. Check the accuracy of quarterly IUFR from accounting software / BRS etc.
   xi. Any other matter auditor feels deemed to the notice to the management.