Annexure-"I"

FINANCIAL PROPOSALS FOR INTERNAL AUDIT		
Professional Internal Audit Fees per Annum per Account		
Sl. No	**Name/Type of Accounts**	**Fees per annum per account/ unit (including out of pocket expenses, GST & service tax etc.) (In Rs.)**
1	Village Development Association (VDA)	
2	Facilitating Non- Governmental Organization (FNGO)	
3	Integrated Tribal Development Agency (ITDA) / OTELP Plus	

Authorized Signatory

(with seal)

INTERNAL AUDIT

MODEL TERMS OF REFERENCE

INDEX

Internal Audit Terms of Reference

1. Introduction

1. This document defines the roles and arrangements governing the provision of Internal Audit services in OTELP plus operational areas.
2. Internal Audit is an assurance function that provides an independent and objective opinion to the ITDA and PSU on the control environment of the programme comprising internal control, governance by evaluating its effectiveness in achieving the OTELP plus objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of funds at PSU/ ITDA/VDA/VDC/VLSC/FNGO level.
3. In addition it states that effective Internal Audit services should aspire to :
   - Understand the whole program and its need and objectives.
   - Understand its position with respect to the programs other source of assurance and plan its work accordingly.
   - Add value and assist the programme in achieving its objectives.
   - Be innovative and challenging.
   - Help shape the ethics and standard of the programme.
   - Share best practices with the external auditor.
4. The main aim of Internal Audit work is to provide the ITDA and PSU, an independent and objective assurance and consulting services, evaluate the adequacy and effectiveness of the OTELP plus program's internal controls, operations and governance processes, thus adding value by helping the ITDA and PSU to accomplish OTELP plus objectives.

2. OTELP Plus.

It is programme that is being funded by the Government of Orissa (GoO).

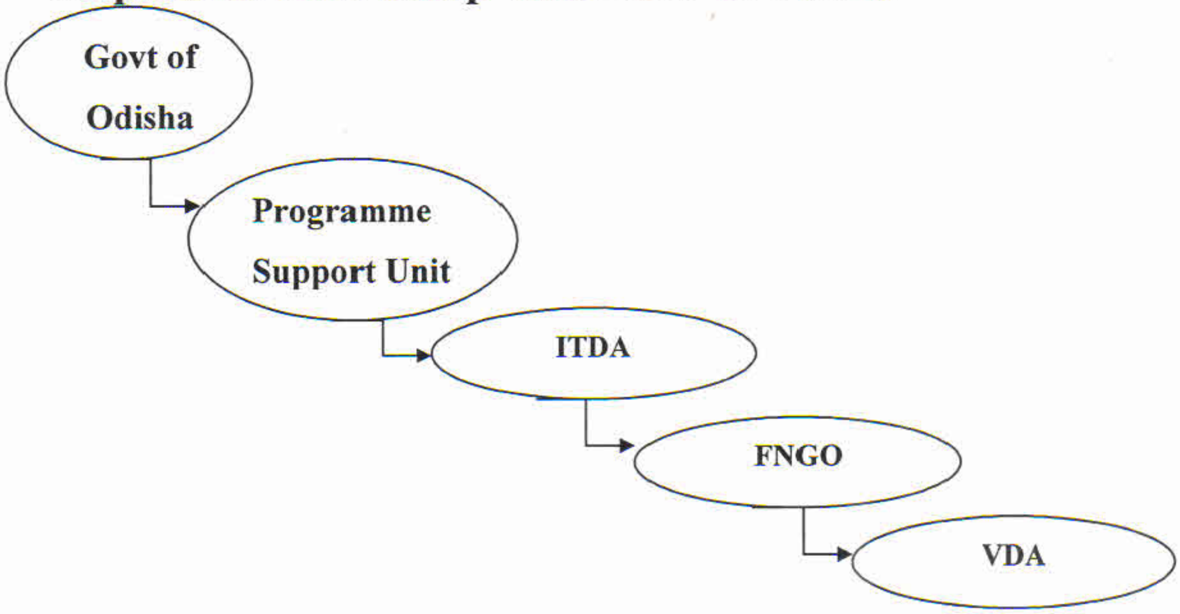
Presently, the programme is operational in 5 districts (Namely- Keonjhar, Sambalpur, Sundargarh, Rayagarh & Malkanigiri) . The Programme implementation is facilitated by the Integrated Tribal Development Agency (ITDA) and selected FNGOs. The strategic approach is to empower the tribals so as to enhance their food security, increase their incomes and improve their overall quality of life. Towards this end, the tribals are being exposed to more efficient ways of managing natural resources based on the principles of improved watershed management. The tribals have been introduced to newer agricultural practices that are environmentally sound and more productive than traditional methods. In addition, the tribals are involved in off-farm/non-farm enterprise development. The emphasis is on promoting participatory processes, building community institutions and fostering self-reliance, while respecting the indigenous knowledge and values of tribals.

3. Role

Internal Audit is an independent and objectives appraisal services within the OTELP programme areas. The governing principles of a project audit are to ensure by professional accountants:

- Provide assurance of accountability
- Give credibility to the financial statements and other management reports
- Identify weakness in the internal controls and financial system
- Verify procurement process and management contracts.
- General conditions require the financial statements including Special Account Statements of Expenditure to be audited according to generally accepted international / national accounting standards.
- General Conditions requires the auditors to address the following:
  - a). Adequacy of accounting and internal control systems to monitor expenditure and other financial transactions.
  - b). Adequacy of accounting and internal control systems of safeguard project assets.
  - c). Adequacy of documentation maintained for relevant transactions.
  - d). To express audit opinions as per ToR
  - e). To identify weaknesses, if any, of internal controls and recommend corrective action.
  - f). To complete the audit process within the stipulated time frame agreed.
  - g). To review the audit reports and satisfy whether these are as per the requirements.

4. Implementation Setup and Flow of Funds:



5. Responsibilities and Objectives:

5.1 Funds are released to PIA (VDC/ VDAs) and also the first facilitator (FNGOs at block level) under different components towards achieving the goal of the program.

The Programme Components are:

i. Capacity Building for Empowerment

ii. Livelihoods Enhancement

iii. Development Initiative fund (DIF)

iv. Programme Management

Major funds are released to spend at VDC/VDA level. Therefore, the Internal Audit should ensure that expenditure are properly booked and accounted for at VDC/VDA/ FNGO level.

5.2. Under Land & Water Management most of the works are civil construction which involves wage (Labour) employment. Therefore, the auditor has to ensure that the implementation has been effected by adhering all the formalities under OTELP setup towards the same. e.g, proper resolution which should be duly signed by two third majority of the beneficiaries at village level for undertaking any sort of activity under that component, followed by proper estimation of the works with measurement, check measurement and cross check, also technical sanction and administrative approval from ITDA level. Case records are one of the most important document maintained which includes entries towards payments & food component. It should also be ensured that the same expenditure has been approved at the Village Level Social & Financial Audit Sub- committee.

5.3. Similarly, under Capacity Building, during cross checking of bills and vouchers, it is to be ensured by the Internal Auditor, that the training programme has been scheduled and organised as per the approved AWPB for that year, i.e qualitative in all respect and properly documented.

5.4. It is to be ensured by the Internal Auditor that all purchases has been made as per OTELP /IFAD procurement guidelines by abiding all legal and tax compliances.

5.5. All materials and labour payments should be properly approved by resolution at VDC/ VDAs level and as per their AWPB and also as per the VDLP. The internal audit should verify the same.

5.6. It is to be observed by the internal auditors that financial statements are prepared according to the prescribed accounting standards.

5.7. It is to ensure by the Internal Auditors that every month the banks Reconciliation Statements are being prepared.

5.8. It is to ensure that all prescribed books of accounts are being regularly updated, which should be supported by proper vouchers & documents

5.9. It is to ensure that the individual component wise expenditures aggregating to the totals reflected in the UC/SoEs are properly approved, classified, supported by documentary evidence.

5.10. Under administrative head of both FNGOs and VDC/ VDAs, it is to be cross checked that the expenditures are not over and above the standard unit cost fixed under that sub-component.

5.11. At present at FNGO level under the head of FNGO implementation cost the standard rate fixed under different sub-components are:

Honorarium & Allowances

1. Honorarium to Experts
   a. Rs. 20000/- per Expert per month for one Expert- Land & Water Engineering & one Expert- Livelihoods & Social Science.
   b. Rs. 15000/- per person per month for a Accounts & Data Management
   c. Rs.3000/- per person per month for a Community Service Providers (CSP) for each micro watershed
2. Additional incentive to Team Leader
   a. One among of the above experts (excluding Accounts & Data Management) will be nominated as Team Leader by the FNGOs and will be responsible to ITDA for coordination, reporting other work as and when it arises. As additional incentive of Rs. 5000/- will be given to deliver these additional responsibilities.
3. Travelling Allowance to the Experts

   Rs. 7500/- (Rupees seven thousand five hundred only) per the month per FNGO for three experts @Rs.2500/- each as travel allowance for travel of minimum 20days in a month.
4. Office Running Cost

   a. Rs.10000/- (Rupees ten thousand only) per FNGO towards office running cost, which includes hiring of office, electricity, telephone, internet, office stationeries & consumable etc.

5.12. The standard unit cost under VDC/ VDA Administrative cost per month at present fixed in approved AWP&B. The following fund will be placed by ITDA to VDA as per requirement/ AWPB of VDA.

(a) Office Running Cost for each VDA @Rs. 250/- each month.

(b) VDA Secretary for each VDA @Rs. 750/- each month.

(c) Community Service Providers (CSP) for each MWS @Rs. 3000/- per month

5.13. Records to be maintained at PSU Level

- Cash and Bank book
- General Ledgers
- Journal Register
- Cheque Issue Register
- Cheque /DD receipt Register
- Fixed Asset Register
- Consumable Register
- Staff Advance Register
- SOE from ITDA

5.14 Records to be maintained at ITDA Level

- Cash and Bank book
- Cheque Issue Register
- Cheque / DD receipt Register
- Fixed Asset Register
- Staff advance Register
- Voucher File/ Folder (DR, CR & JV)
- UC File
- Postage Stamp Register
- Maintenance of accounts with Tally software

5.15. Records to be maintained at FNGO Level

- Cash (Manual) and Bank Book
- Cheque Issue Register
- Case Record at VDA Level (Duplicate copy)
- Bills & Vouchers Folders **(Debit, Credit & Journal)** having details of all bills, supporting and vouchers against all expenditures under CB, Admin & other component if any
- House rent Agreement/ Computer Hired Agreement for office purpose
- Staff Attendance register
- Training Register
- Training reports & photographs
- Visitors register
- Staff Meeting Register/ Proceeding
- Statutory deduction (PT/IT)

- Tour Report & Dairy of each Experts
- Stock Register (Consumable & permanent)
- Salary/ Honorarium register
- Asset register
- Internal Audit report
- Statement of Expenditure, Utilization certificate (OGFR-7A), Monthly Progress Report, Honorarium Register of Expert members, Quotation file, Receipt vouchers, Case records, Convergence file, Photo album of each activity taken at programme cycle/ area, Personal file of experts , Annual Work Plan & Budget etc.

5.16. Records to be maintained at VDC/ VDA Level:

- Cash and Bank Book
- General Ledger
- Stock Register (Non-Food items)
- Cheque Registers
- Case Records (DIF, Agri. & Hort. & other component if any)
- Meeting Resolution Register
- Community Procurement Committee (CPC) Register
- Asset Register (to record all completed works of closed case records including labour and materials component)
- Voucher Folders containing all support bills and vouchers
- Utilization certificate (OGFR-7A), Monthly Progress Report, Honorarium Register of CSP & VDC Secretary, Quotation file, Receipt vouchers, Case records, Convergence file, photo album of each activity taken., CSP work performance report, Annual Work Plan & Budget etc.

6. Authority

6.1. Internal Audit has a right of access to all books of accounts, records, register, returns, vouchers, assets, personnel and premises and has authority to obtain such information and explanations as it considers necessary to execute its responsibilities.

6.2. Internal Audit may carry out special reviews or assignments at the direction of the PD/PA.

6.3. The Internal Audit Unit takes its authority and terms of reference from the PD, PSU and PA, ITDA.

7. Scope

By and large the Internal Auditor has to verify all financial aspects. As the Internal audit intended to be only a financial audit, the Internal Auditor need not spend times on the managerial aspects and operational plans of the project.

The Scope of work entrusted to the Internal Auditor shall be pertaining to the aspects like economy, efficiency and effectiveness of the programme. This will include.

1. Checking of daily cash, bank and journal transactions to ensure:
    - Transactions are recorded on principles of commercial accounting and are booked to proper accounting heads.
    - Transactions are undertaken on the basis of proper authority
    - Transactions are duly supported by proper supporting documents.
    - Propriety of the transaction.
    - Adherence to guidelines of the concerned funding Agency and financial procedures formulated by the PSU.
2. Checking the maintenance of book of accounts and records.
3. Checking the bank reconciliation statements.
4. Checking of investments, short term deposits etc.
5. Checking of components wise, category-wise and account head-wise expenditures.
6. Checking of various MIS reports generated along with statements and information submitted to various authorities.
7. Checking of various cost data with physical achievements data to monitor project progress.
8. Checking of various contracts awarded.
9. Checking of various statutory compliance like Income Tax, etc.
10. Checking of budget prepared from time to time
11. Suggesting revision in forms and formats from time to time.
12. Establish and monitor the financial achievement of the project
13. Ensure the economical, effective and efficient use of resources.
14. Ensure compliance with establish policies (including behavioural and ethical expectations), procedures, laws and regulations.
15. Safeguard the programmer's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
16. Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

8. Independence

8.1 Internal Audit should be sufficiently independent of the activities which it audits to enable auditors to perform their duties in a manner which facilitates impartial professional judgements and recommendations, and should heave no executive responsibilities.

8.2. Accountability for the response to the advice and recommendations of internal audit lies with the unanimous decision of PD/PA, who either accept and implement the advice or formally reject it.

9. Policy Matters

Internal Auditors need not spend time on the management aspect & operational plans of the project.

10. Reporting

10.1. The Internal Auditors shall report directly to the Project Administrator, OTELP Plus and audit report shall be submitted within the 15days after completion of programme closure audit.

10.2. The extent of verification by the internal auditor shall be as follows;

i. Scrutiny Voucher (Debit/ Credit/ Journal) : 100%

ii. Scrutiny of staff advance ledgers : 100%

iii. Books of Accounts (i.e. Cash/ Bank Book, Cheque register, Bank Reconcile statement, UC, SoE, MPR, Meeting register, Honorarium register, quotation, Income Tax, Stock Register, Asset Register, General ledger, Tally accountings, Training register, visitor register, convergence expenditure & document details, case records etc.) : 100%

iv. Scrutiny of other ledger and sub-ledger accounts : At least 50%

11. Staffing

11.1. Internal Audit be appropriately staffed in terms of numbers, grades, qualification levels, and experience, Internal Auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development program.

11.2. The Internal Auditor will ensure that their staff should have the minimum level of skill, knowledge and experience required of an internal auditor. The Internal Auditor should be a qualified accounting professional and should have a wide experience on tribal project, community and NGO audit works.

12. Important Manuals Related to Accounting and Financial Management

a. Programme Implementation Manual (This includes Financial and Administrative Regulations)
b. Operational Guideline for Implementation of OTELP Plus
c. Guidelines for implementation of Development Initiative Fund (DIF)/ Agriculture & Horticulture Activities.
d. Guidelines for Operation of field activities under Rastriya Kirshi Vikash Yojana (RKVY)

ABBREVIATIONS

OTELP: Orissa Tribal Empowerment and Livelihoods Programme

NGO: - Non-Governmental Organisation

FNGO:-Facilitating Non-Governmental Organisation

VDC: - Village Development Committee

VLSC: - Village Level Sub-Committee

VDA-Village Development Associations

VDA: - Village Development Association

IFAD:-International Fund for Agriculture Development

ToR: - Terms of Reference

PSU: - Programme Support Unit

ITDA: - Integrated Tribal Development Agency

CB: - Capacity Building

WDT:- Watershed Development Team

CM: - Community Mobiliser

UC: - Utilization Certificate

SoE:- Statement of Expenditure

DFID: - Department for International Development

CSP:- Community Service Provider

MPR:- Monthly progress Report

PA:- Project Administrator

PT: Professional Tax

IT: Income Tax

POPME: Programme Officer Planning Monitoring & Evaluation

FO: Finance Officer

POCB: Programme Officer Capacity Building

WDO: Watershed Development Officer

AO: Agriculture Officer

OA: Office Assistant