

## **Terms of Reference for an Internal Auditor**

### **For Internal Audit of ..... State AIDS Control Society**

#### **Under the National AIDS Control Programme Phase-IV**

##### **I. Background**

Department of AIDS Control (DAC) with partial funding from the World Bank and Global Fund is implementing National AIDS Control Project throughout the country. It is intended to apply part of the proceeds of this financing to eligible payments under contracts for this assignment. The Programme is being implemented in partnership with the State AIDS Control Societies (SACS) of 35 States/UTs located across the country and 3 Municipal / District AIDS Control Societies located at Mumbai, Ahmedabad & Chennai. The SACS are registered Societies under the control of State Government.

##### **II. Objectives**

The overall objectives of the internal audit are:

- To express an independent professional opinion with regard to efficiency, effectiveness and economy of the program operations.
- To ascertain and evaluate the adequacy and effectiveness of the financial management and internal control framework.
- To ascertain compliance of the laid down policies, NACP financial norms, State Government procedures, various guidelines, manuals, etc as applicable under the project.
- To identifying areas for improvement and critical weaknesses, if any.
- To provide Project management with timely information and recommendations on financial management aspects of the project to enable timely corrective actions, as necessary.

##### **III. Coverage**

The internal audit will be performed on a semi-annual basis of the SACS. The auditor would visit the various field offices. The audit will also include a physical verification of the assets/equipments /supplies procured under the project and located in the above units.

##### **IV. Scope of Work**

**Scope of Work of Hub Auditor:** The internal audit should be carried out in accordance with the International Standards on Auditing (ISA) published by the International Federation of Accounts and should include such tests and controls, as necessary for performance of the audit. The scope of the assignment will be comprehensive and will cover the project activities and transactions of all the cost centers i.e. SACS, NGOs, Periphery Units, STRCs etc. The responsibilities of the internal auditor includes reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with NACP financial norms and State Government procedures. Specific areas of audit should include the following:

- (a) An assessment of the adequacy of the program's financial management system, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls exercised by the implementing agencies and suggestions of improvement, if any.
- (b) 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 purpose for which the financing has been provided.

- (c) Generally accepted Accounting Principles are followed by all entities that are authorized to incur expenditure under National AIDS Control Programme.
- (d) An assessment of efficiency and timeliness of funds flow and reporting (Utilization Certificates) mechanism at the level of SACS, NGOs and peripheral units for implementation of project activities.
- (e) Expenditure Statements submitted by NGOs and the peripheral units have been correctly accounted for and disbursements made to them are as the guidelines and norms prescribed under NACP-IV Programme.
- (f) An assessment of the adequacy of financial and administrative delegation and segregation of duties and controls. And, assessing expenditures incurred/ advances provided are duly authorized as per the financial and administrative delegation approved by the Executive Committee.
- (g) Expenditure incurred are in accordance with the financial norms prescribed in the NACP-IV framework, operational guidelines, legal agreement or any other clarifications issued from time to time.
- (h) 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.
- (i) Adequate and proper supporting documents, namely, purchase orders, tender documents, invoices, vouchers, receipts, pay bills, TA bills etc. are maintained and linked to the transactions.
- (j) Goods, works and services financed have been procured in accordance with relevant provisions of GFR for procurements made under domestic funding and as per World Bank Procurement Procedures for procurements made under World Bank or Global Fund funding.
- (k) The review of procurement process should also cover the progress on establishing grievance redressal mechanism and feedback provided to unsuccessful bidders.
- (l) Reconciliation of Bank Statements and accounts is regularly carried out on a monthly basis and necessary corrections on account of Bank's credits/debits and stale cheques are accounted for concurrently.
- (m) Assets: Completeness, existence, recording, safeguard and utilization for the purpose intended including, physical verification of sample of assets.
- (n) Ascertain the reliability of integrity, controls, security and effectiveness of the operation of computerized system. Identify constraints, if any, in the timely updating of the Computerised Project Financial Management System (CPFMS) and in adhering to the internal control procedures.
- (o) The procurement, contracting, disbursement and monitoring of NGOs/Community Based Organizations (CBOs) are carried out in line with the NGO/CBO guidelines and Project Funding Agreements. Summarize key findings and actions taken by SACS on the audit observations of the NGOs.
- (p) The internal auditor shall also verify and reconcile the Statement of Expenditure submitted by NGOs to SACS with reference to records and accounts books maintained at NGOs office and report the variance in tabulation form for making necessary corrections/adjustments by SACS while releasing further grants.
- (q) An assessment of the action taken by SACS on the recommendations related to procurement process made in the previous half-yearly audit reports.

(r) The scope of work will additionally include detailed review of the issue of advances, staff advances and cash payments for items purchased. The following should be covered in the detailed review:

**(i) Advances to NGOs and Peripheral Units:**

- a. An assessment of system being followed for monitoring of advances; whether ageing analysis is being carried out by the SACS on continuous basis;
- b. An assessment of the adequacy of the system of review and approval before the settlement of advance and the evidence of the review being retained;
- c. Assess whether fresh advances are being given only after settlement of previous advance.
- d. Ascertain the timeliness of settlement of advances;
- e. Present a status report of the pending advances for more than one year.

**(ii) Staff Advances:**

- a. Review of advances paid to staff, their purpose and if the staff rules in this regard are followed.
- b. Review the settlement of staff advances as per the operational rule of the programme.
- c. Present a status report of the pending staff advances for more than one year old with an opinion on the recoverability of the same.  
Assess the State Staff Advances rules and comment if the same are in lines with NACO operation guidelines.

**(iii) Cash Payments:**

- a. Review the payments made in cash in the programme (directly or through staff) and advise if the NACO operational guidelines / rules in this regard are being followed on consistent basis (payment made by bearer cheque is considered as cash payment)
- b. Review the record keeping for recording the purchases made against cash and advice if this is sufficient to ensure that programme's fiduciary interest is fully safeguarded.
- c. Provide an opinion on adequacy of the limit on cash payments as per NACO operational guidelines/rules.

A checklist (covering financial management and procurement issues) is provided along with the TOR as guidance to the internal auditors. This should be attached and submitted along with the audit report.

## **V. Other Information**

### **Timing for audit and submission of the audit report:**

<b>Period of Audit</b>	<b>Submission of SACs and Hub Report</b>	<b>Submission of Hub Auditor Report</b>
April – September	15 <sup>th</sup> November	30 <sup>th</sup> November
October – March	15 <sup>th</sup> May	30 <sup>th</sup> May

**Reporting and deliverables:** The internal auditors should furnish a half yearly audit report (along with the checklists) to the each State Project Director separately for their State with an executive summary of the critical issues/findings that require attention of the senior management and a copy of this report must also be placed with the Executive Committee of SACS.

A consolidated report for the hub along with a copy of executive summary and the Internal Audit Reports of the SACS must be sent to DAC/NACO. A soft copy of the Internal Audit Report must also be shared with Statutory Auditors and Funding Agencies, if requisitioned.

Non submission of Audit Report within stipulated period may attract a penalty of 0.5% of total contracted value per week basis after a grace period of 1 ½ months of submission period.

**Period of appointment:** The contract will be on regional hub approach and year to year basis, extendable for a period of 3 (three) years depending on the satisfactory completion of assignment during the previous year. Further, based on the performance assessment, extension/ re-appointment letters shall be issued for the second and the third year.

**General:** The auditor will be given access to all legal documents entered into with the World Bank/Global Fund, Project Implementation Plan, books of accounts, NGO/CBO guidelines, Procurement Manual, Financial Management Manual, Scheme books and any other information associated with the Programme and deemed necessary by the auditor.

**Review:** A review committee consisting of Project Director, head of the financial management group at the State AIDS Control Society will review the internal audit report submitted by the internal auditor and take further remedial measures on the discrepancies pointed out in internal audit.

**Audit 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 list of key personnel and whose CVs and experience requirement are as follows:-

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 10 years of experience as a partner with expertise in the area of internal audit planning, execution and reporting	1 person 02 – 08 days
2	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 5 years of experience in internal 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	Field level audit (including visits to a sample of peripheral units)	Person with experience in GFR, budgets, and financial rules of the Govt. experience in procurement audit desirable	Sufficient numbers 05 – 20 days
4	Team Member	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

#### List of Annexures to ToR:

- Annex 1 - Reporting Format
- Annex 2 –Internal Audit Coverage Report
- Annex 3 –Internal Audit Checklist format

### **Annex1 - Reporting Format:**

The audit report will be in the form of a Management Letter (including an Executive Summary, highlighting key issues for management) which will inter alia have the following sections:

- Objective of the audit;
- Methodology of the audit;
- The status of implementation of the financial management records, system and controls;
- The status of compliance of the previous audit report, including major audit observations pending compliance;
- The key areas of weaknesses, needing improvement
- Recommendations for improvements; and

The comments from the Project Implementation Unit (PIU) and concerned officers must be incorporated in the report as Management comments.

#### **Format for Executive Summary:**

Para No.	Major Observations	Implication with risk involved	Recommendations for improvement	Auditee's Comments/ Agreed Actions	Timeline

#### **Format for Executive Summary for Hub Audit Report:**

Para No.	Observations	Implication with risk involved	Recommendations for improvement	Auditee's Comments/ Agreed Actions	Timeline
		Hub Auditor			

### **Annex2—Internal Audit Coverage Report**

The internal hub auditor needs to annex this checklist with the internal audit report in the below specified format specifying the coverage of observations taken. Similarly the hub auditor should also annex internal audit checklist in a similar detailed format specifying the coverage of observations taken to form an opinion at project level.

Particulars		Coverage of SACS		
		Total Units	Audited Units	% Audited
Hub 1	State 1			
	State 2			
	State 3			

### **Annex3–Internal Audit Checklist format**

Internal Audit Checklist				
S.No	Assessment Parameters/Internal Checks/Controls		Observation	
A	Payments and receipts		Major	Minor
1	Are the payments for expenditures in line with the approved annual work plan			
2	Are the payments properly approved in line with the financial delegation			
3	Are the supporting documents filed properly and easily accessible			
4	Is there a serial control over payment, receipt and journal vouchers			
5	Are the expenditures/ payments charged to the correct account code and head of expenditure			
6	Is the system generated voucher used as the basis for approval of payments			
B	Fund Flow			
1	Are there any delays in receiving funds from the centre to states and states to districts? Has the project or any component been out of funds in the last one year?			
2	Whether the State is transferring the funds to Districts electronically or by physical transfer?			
3	Whether the fund transfer by State to Districts is being done like RCH flexible pool or does the State carry out activity wise fund transfer to the Districts.			

4	What is the average frequency of fund transfer in a year?		
5	Comment on a process flow improvements that can be made.		
<b>C</b>	<b>NGOs</b>		
1	Is there a TSU to support NGO/CBO activities and does it have a finance staff		
2	Is there a TSU to support NGO/CBO activities and does it have a finance staff		
3	Has the financial management capacity of the NGO been assessed by the TSU and the process documented during the selection process.		
4	Are there any critical FM capacity issues identified during selection process and how are these planned to be addressed.		
5	Does the contract with the NGO contain the Financial Management aspects		
6	Is the tranche release to NGOs in compliance with the contractual obligations and in adherence to the NGO/CBO guidelines?		
7	Are funds released without settlement of previous advance or without receipt of quarterly financial report?		
8	Is the NGO/CBO timely in submitting financial reports to the SACS/PSU? If not what actions are being taken to address this issue.		
9	Is the financial review of NGOs by the TSU adequate in terms of the quality and frequency		
10	Are on-site visits to the NGOs made by the finance staff of the TSU		
11	Have annual audited financial statements received from the NGOs.		
12	Carry out on site (where covered under the scope of the audit) audit of NGOs/CBOs as per the TOR provided in the NGO/CBO guidelines and attach a separate report of the NGO/CBO covered. Where this is carried out by independent auditors comment on the adequacy of the actions taken by SACS to address the observations of the auditors.		

<b>C</b>	<b>Peripheral Units</b>		
1	Has a sanction letter been issued for the proposed activity by the peripheral unit		
2	Are the financial management, financial reporting and date of settlement of advance indicated in the sanction letter?		
3	Is the settlement done on time and is supported by a proper utilization certificate		
4	Are subsequent tranches released without settlement of the first advance		
5	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.		
6	Whether the Peripheral Units have shown any expenditure on procurement from the proceeds of NACP-III		
<b>D</b>	<b>Overall Monitoring of advances</b>		
1	Is the system for monitoring and control of advances adequate		
2	Are there a large number of advances overdue		
3	Is there an ageing report generated for review by the project director on a periodic basis.		
<b>E</b>	<b>Operation of bank account.</b>		
1	How many Bank accounts are being maintained and are Bank reconciliations carried out on a monthly basis?		
2	Are there any un-reconciled or un-accounted for balances		
3	Are payments made by crossed cheque/ draft?		
4	Is there adequate physical control over cash, receipt book and blank cheque books		
<b>F</b>	<b>Fixed Assets</b>		
1	Have the procurement procedures prescribed in the Procurement Manual followed by the SACS for procurement of assets purchased by the SACS.		



2	Are these supported by adequate and valid supporting documents		
3	Are the assets procured documented in the fixed assets register giving its location etc.		
4	Carry out a sample verification of fixed assets both in SACS and the peripheral units/ NGOs		
5	Are assets received in kind also recorded in the fixed asset register giving the date of receipt, location etc.		
6	Has a material been purchased for the activity?		
7	Has the purchased material been entered in the stock register? Is it upto date and physical stock in agreement with book balances?		
<b>G</b>	<b>Purchase of Goods &amp; Services by SACS</b>		
1	Have the procurement procedures prescribed in the Procurement Manual followed by the SACS for procurement of goods & services purchased by the SACS.		
2	Have the SACS procured any drugs or medical supplies (such as test kits, condoms etc.) from the proceeds of NACP-III		
3	Whether the value of any contract exceed US\$ 50,000 equivalent (US\$ 75,000 equivalent only for NGO/CBO contracts)		
4	Whether the SACS has procured directly or any other procurement support agency has handled the procurement		
5	Are these supported by adequate and valid supporting documents		
6	Where goods including drugs are procured are these correctly recorded in the inventory register?		
7	Carry out a sample verification of inventory of consumables, drugs supplied to the NGO's peripheral units		
8	Are goods (ART drugs, test kits etc.) received in kind also recorded in the inventory register? Do the physical balances agree with the book balance? Comment on the variance if any.		
<b>H</b>	<b>Accounting</b>		
1	Is the CPFMS operational and upto date		
2	Are there any constraints in using the system		

3	Are back up processes adequate		
4	Have the financial reports for the previous quarter generated from the CFMS sent to NACO in a timely manner		
<b>I</b>	<b>Staff Advances</b>		
1	Staff advances paid to staff is in accordance with the staff rules & for the purpose within rules.		
2	The settlement of staff advances are as per the operational rule of the programme.		
3	A status report on the pending staff advances for more than one year old with an opinion on what amount could be considered actually receivable has been obtained.		
4	Comment on the staff advances rules, whether rules are in accordance with NACO operation guidelines and/or if they need amendment.		
<b>J</b>	<b>Procurement process</b>		
1	Have the procurement procedures prescribed in the Procurement Manual followed by the SACS for procurement of goods/works/contract of staff etc. by the SACS.		
2	Are these supported by adequate and valid supporting bidding, approval of competent authority, supply order etc. documents?		
3	Are the goods/works/contract of staff etc procured documented in the relevant stock/work/personal registers/files giving its quantity receive/issue/balance etc.		
4	Carry out a sample verification of goods/works/contract of staff etc both in SACS and NGOs		
5	Is physical stock in agreement with book balances?		
<b>K</b>	<b>Other Issues</b>		
1	Any other issues that the firm may like to address		

Signature of the CA Firm