Odisha Livelihoods Mission

Panchayati Raj Department

**Government of Odisha**

**TERMS OF REFERENCE FOR STATUTORY AUDITOR**

**1. Background**

The Government of Odisha (GoO), is implementating National Rural Livelihood Mission (NRLM)/National Rural Livelihood Project (NRLP) and World Bank assisted project TRIPTI through the Odisha Livelihoods Mission, a society registered under society act. The Odisha Livelihoods Mission aims to improve rural livelihoods and enhance social and economic empowerment of the rural poor. This would be done by developing organizations of rural poor and producers to enable them to access and negotiate better services, credit and assets from’ public and private sector agencies and financial organizations. At the community level, Odisha Livelihoods Mission will primarily work through Self Help Groups of the poor, with rural women members within the household, particularly of the tribal people and vulnerable sections. It will provide intensive, hand-holding support to the SHGs in order to help them become vibrant, self-managed and sustainable organizations, founded on the principles of mutual trust and self-help among the members. Each SHG will follow a clearly laid-out sequential path of gradual development that will include responsible management of group funds through savings and inter-lending. At different stages of project support, each SHG’s capacity will be rigorously assessed and rated against certain milestones.

 TRIPTI/NRLP/NRLM is executing with intensive approach through an implementation architecture consisting of:

* State Mission Management Unit (SMMU) at state level (Bhubaneswar).
* District Mission Management Unit (DMMU) at district level.
* Block Mission Management Unit (BMMU) at block level.

The DMMUs & BMMUs shall be responsible for all activities and processes in the target Gram Panchayats/villages. The other schemes being implemented under the ODISHA LIVELIHOODS MISSION are Mahila Kisan Sashaktikaran Yojana (MKSP), Rural Self Employment Training Institutes (RSETI), Odisha Aam Admi Bima Yogana (OAABY) and Interest Subvention (Centrally Sponsored Projects and State Plan)

**2. Audit Objectives:**

The objective of the audit is to ensure that the Society receives adequate independent, professional audit assurance that the proceeds of funding agencies were used for the purposes intended, that the annual consolidated financial statements/individual project financial statements are free from material misstatement, and that the requirements [also, read as guidelines with respect to the project/programs] of the projects/programs were complied with in all material respects.

 The objective of the audit of the ODISHA LIVELIHOODS MISSION Financial Statements is to enable the auditor to express a professional opinion as to whether:

(1) The Consolidated Financial Statements of the Society and individual Project Financial Statements give a true and fair view of the sources and applications of Odisha Livelihoods Mission funds for the period under audit examination;

(2) The funds were utilized for the purposes, for which they were provided,

(3) The procurement procedures prescribed in the Procurement Manual of Odisha Livelihoods Mission has been followed; and

(4) The expenditures reported in the Consolidated Financial Statement/Project Financial Statement of the Society are eligible for financing/funding under the relevant program/project guidelines. In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports submitted by project management units may be relied upon to support any application for reimbursement under the project/program.

The books of account that provide the basis for preparation of the Project financial statement are established to reflect the financial transactions of the mission and are maintained by Odisha Livelihoods Mission and its constituent state, district and Block Mission Management Unit level units.

**3. 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 intended purposes remains with the borrower, the audit should be planned so as to have a reasonable expectation of detecting material misstatements in the mission financial statements.

**4. Audit Scope:**

In conducting the audit, special attention should be paid to the following:

* All mission funds have been used in accordance with the conditions of the relevant project/program agreements and only for the purposes for which the financing was provided. Relevant project/program agreements include the Program Guidelines, Financial & Procurement Manuals and other circulars, office orders issued by MoRD, GoI. / GoO.
* Effective 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 need 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;
* All necessary supporting documents, records, and accounts have been kept in respect of all mission transactions including expenditures reported via Interim un-audited Financial Reports (IUFRs)/SoE where applicable. Clear linkages should exist between the books of account and reports presented to MoRD;

 The mission accounts have been prepared in accordance with the accounting principles defined in the Odisha Livelihoods Mission Financial Manual and give a true and fair view of the financial position of the Odisha Livelihoods Mission at the year end and of resources and expenditures for the year ended on that date. Counterpart funds are required under individual programs have been provided by the state;

* Fund releases to Community Based Organizations (CBO’)s are in compliance with the conditions in the Community Operations Manual/ guidelines;
* Goods and services financed have been procured in accordance with the procurement procedure prescribed in the Procurement Manual of Odisha Livelihoods Mission.
* The Odisha Livelihoods Mission has a reasonable system of physical verification of assets constructed or acquired by the Odisha Livelihoods Mission.
* Fund flow from Odisha Livelihoods Mission SMMU to District, Block, GPLF and SHG as per Standard Operating Procedure.
* The general principles with respect to the accounting treatment for the above are as follows:
	+ - * Fund transfers from district to block levels [applicable to DRDA/BDO transfers as well] are inter unit transfers;
			* At the district level, block level expenditure are required to be complied on the basis of books of accounts [applicable for BDO level expenditure as well] and not UCs;
			* Fund transfer to GPLF/SHG for revolving funds [CIF/PPF and other revolving funds, by whatever name called] are considered as expenditure at the point of release of funds; all other fund release [IB , Start-up, Livelihoods initiatives etc] are considered as advances and accounted for as expend only on the basis of GPLF monthly financial statements
			* Funds advanced to or placed with other GoO institutions/Departments will not be treated as expenditure unless the SoE received from the executive agencies.

These SOEs will be subject to annual audit of OLM.

**5. Audit Period**

* The Audit to be carried out shall be for the financial year 2014-15.

**6. Time Schedule**

* The Audit firms will complete the entire engagement within a period of 2.5 months from the date of agreement.

**7. Reporting**

* The firms will submit its report to the State Mission Director – cum- CEO, Odisha Livelihood Mission, Panchatiraj Department, Government of Odisha.

8. **Payment Schedule**

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| --- | --- |
| Submission of Audit Plan and initiation of Audit along with the names of Audit Staff and Audit Manager, together with their field visit dates. | 10% |
| Draft Report Submission | 30% |
| Final Report Submission in prescribed format.  | 60% |
| **Total Payment** | **100%** |

**Odisha Livelihoods Mission Financial Statements:**

Odisha Livelihoods Mission Financial Statements should include:

1. Project wise/Consolidated Financial Statements including Receipts & Payments Account, Income & Expenditure Accounts, Bank Reconciliation Statement and Balance Sheet of the Society, accounting policies and notes to accounts as appropriate;
2. Other Statements or Schedules which may include:

• A separate list of cumulative project expenditures by Project Component/Sub-components;

• Project wise detailed list of assets created or purchased from respective project funds.

1. Management Assertion: Management should sign the ODISHA LIVELIHOODS MISSION financial statements and provide a written acknowledgement of its assertion that ODISHA LIVELIHOODS MISSION 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 in Annex 1.

**Audit Opinion**

An audit report on the ODISHA LIVELIHOODS MISSION annual financial statements should be prepared in accordance with the Auditing Standards promulgated by the Institute of Chartered Accountants of India. 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 the opinion is adverse or a disclaimer of opinion. In addition, for the project, the auditor will provide audit report which may be customized to meet the requirements of the funding partners, In general however, 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) expenditures shown in the PROJECT FINANCIAL STATEMENT are eligible for financing under the program/project guidelines, where applicable, (3) the IUFRs submitted during the period are supported by adequate detailed documentation maintained in the ODISHA LIVELIHOODS MISSION accounting offices. A sample audit report wordings are shown in Annexes 2a, 2b, 2c, 2d and 2e.

**Interim Unaudited Financial Reports**

 In addition to the audit of the PROJECT FINANCIAL STATEMENT, the auditor is required to audit all Interim Unaudited Financial Reports (IUFRs) prepared and submitted by ODISHA LIVELIHOODS MISSION to GoI [or other funding partners] during the period under audit examination, reconciling the expenditures reported in the PROJECT FINANCIAL STATEMENT with the IUFRs, as may be applicable. 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 ODISHA LIVELIHOODS MISSION eligibility by reference to the program guidelines, office orders etc. Where ineligible expenditures are identified as having been included in IUFRs, these should be separately noted by the auditor.

 The auditor should submit three copies of the audited accounts and audit report to the Implementing Agency. An original copy of the audit report should be received by the MoRD/GoI .

**MANAGEMENT LETTER**

In addition to the audit report on the ODISHA LIVELIHOODS MISSION financial statements, the auditor may prepare a management letter which includes such observations during the course of audit which do not affect the audit opinion but deserves the management’s attention. For e.g. observations on the accounting records, systems, and controls that were examined during the course of the audit or any other matters that the auditor considers pertinent. A sample of the form and likely contents of the management letter is attached in Annex 3.

**GENERAL**

The auditor should be given access to all information relevant for the purposes of conducting the audit. This would normally include all legal documents, correspondence, and any other information associated with the ODISHA LIVELIHOODS MISSION and deemed necessary by the auditor. The information made available to the auditor should include, but not be limited to, copies of the Bank’s NRLP Appraisal Document, the relevant contracts and Legal Agreements, Financial Management Manual, Procurement Manual, Community Operations Manual (COM) and the ODISHA LIVELIHOODS MISSION Implementation Plan (PIP)

**Annexure 1**

 **Example of a Management Representation Letter[[1]](#footnote-1)**

(Foundation Letterhead)

(To Auditor) (Date)

This representation letter is provided in connection with your audit of the financial statements of Odisha Livelihoods Mission as of \_\_\_\_\_\_\_\_\_ and for the year ended . We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the cash basis of accounting, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

* The financial statements are free of material misstatements, including omissions.
* Assets shown on the balance sheet exist, are owned by the Foundation, and are used solely for project/program, purposes.
* Project/Program funds have been used for the purposes for which they were provided.
* Project/Program expenditures are eligible for financing under the Project/Program Guidelines.
* 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 annual financial statements.
* We have made available to you all books of account and supporting documentation relating to the project/program.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(Additional Chief Executive officer (Finance)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(SMD-cum-CEO)

**Annexure 2a**

**Sample Audit Report—Unqualified Opinion**

**Auditor’s Report**

Addressee[[2]](#footnote-2)

**Report on the Annual Financial Statements**

We have audited the accompanying financial statements of the \_\_\_\_\_\_\_ , which comprise the Balance Sheet as of \_\_\_\_\_\_\_\_, and the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds[[3]](#footnote-3) for the year then ended . These statements are the responsibility of the Mission’s management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing and Assurance Standards promulgated 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Odisha Livelihoods Mission as of \_\_\_\_\_\_\_\_\_ and the sources and applications of its funds for the year then ended in accordance with accounting principles generally accepted in India.

In addition, in our opinion, (a) with respect to IUFRs, adequate supporting documentation has been maintained to support the expenditures reported to MoRD; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to this audit report, expenditures are eligible for financing under the Project/Program Guidelines. During the course of the audit, IUFRs and the connected documents were examined and these can be relied upon to support reimbursement under the Project/Program.

[Auditor’s Signature]

[Auditor’s Address]

[Date[[4]](#footnote-4)]

**Annexure 2b**

**Sample Audit Report—Qualified Opinion, Limitation on Scope**

**Auditor’s Report**

Addressee

**Report on the Annual Financial Statements**

[standard introductory paragraph]

[Auditor’s Signature]

[Auditor’s Address]

[Date]

**Annexure 2c**

**Sample Audit Report—Qualified Opinion, Disagreement with Management**

**Auditor’s Report**

Addressee

**Report on the Annual Financial Statements**

[standard introductory paragraph]

[standard auditor’s responsibility paragraph]

[Auditor’s Signature]

[Auditor’s Address]

[Date]

**Annexure 2d**

**Sample Audit Report—Adverse Opinion**

**Auditor’s Report**

Addressee

**Report on the Annual Financial Statements**

[standard introductory paragraph]

[standard auditor’s responsibility paragraph]

 [Auditor’s Signature]

[Auditor’s Address]

[Date]

**Annexure 2e**

**Sample Audit Report—Disclaimer of Opinion**

**Auditor’s Report**

Addressee

**Report on the Annual Financial Statements**

We *were engaged to audit* the accompanying financial statements of the \_\_\_\_\_\_\_ ODISHA LIVELIHOODS MISSION, which comprise the Balance Sheet as of \_\_\_\_\_\_\_\_\_, and the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds for the year then ended. These statements are the responsibility of the ODISHA LIVELIHOODS MISSION’s management.

*The books of account and supporting documentation maintained in the office were destroyed in a fire on [date].*

*Because of the significance of the matter discussed in the preceding paragraph, we are unable to express—and we do not express—an opinion on the financial statements.*

 [Auditor’s Signature]

[Auditor’s Address]

[Date]

**Annexure 3**

**Example of a Management Letter**

(Auditor’s Letterhead)

(Date)

To Management,

In connection with our audit of the financial statements of the \_\_\_\_\_\_\_ as of \_\_\_\_\_\_ and for the year then ended, we familiarized ourselves with Project/Program documents and the internal guidelines / circulars applicable during the period under audit. We also reviewed the business of the Mission and evaluated the accounting systems and related internal controls of the Mission in order to plan and perform our audit.

This Letter to 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 books of accounts and records
* Accuracy of Annual financial statements
* Status of prior audit recommendations

The matters contained in this Management Letter are intended solely for the information of Management, for such timely consideration and action as Management may deem appropriate. They have all been considered by us in formulating the audit opinion expressed on the annual 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 the Management for the courtesies and cooperation extended to our staff.

Yours truly,

(Name and Title)

1. This sample management representation letter is based on AAS 11, “Representations by Management,” *Handbook of Auditing Pronouncements,* Institute of Chartered Accountants of India, 2007 [↑](#footnote-ref-1)
2. The auditor’s report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited financial statements. [↑](#footnote-ref-2)
3. Insert titles of other required statements and schedules included in or annexed to the annual financial statements, if any. [↑](#footnote-ref-3)
4. The report should be dated as of the date to which the auditor has become aware of and considered the effects of events and transactions. This is generally the final date of fieldwork, as opposed to the date of signing the audit report. [↑](#footnote-ref-4)