

Odisha Community Development and Management Society Terms of Reference for External/ Statutory Auditors

Background of the Society-

1. In the state of Odisha under Minor Irrigation department, there are 3646 Minor Irrigation Projects (MIPs) with an ayacut area of 40 hectares and above. These MIPs are designed to irrigate 5.5 lakh hectares of agricultural land. But in reality, full potential of MIPs has not been achieved. In the past efforts have been made to take up renovation of MIPs/Tanks from time to time. But experience shows that such efforts have yielded results and have become sustainable when communities have participated in it. Under these circumstances a State Level Society in the name of “ The Odisha Community Tank Development and Management Society” has been formed under the Society Registration Act.1860 to facilitate funds flow, strengthening the grass-root level people’s institutions relating to farming and other ancillary activities around the project, capacity building of the stake holders etc. The society was created on the 17th November 2006. The registered office of the society at Bhubaneswar and operates under the aegis of the Department of Water Resources, Government of Odisha.

Objectives of the Society-

2. The society have the overall goal to improve the functionally and capacity of tank irrigation structure with the participation of local communities. For the purpose, it facilitates community participation in all aspects starting from project preparation to implementation, integrates interventions and ensure operational convergence in related sectors, viz, Agriculture, Horticulture, Forestry, Animal Husbandry, Fisheries, Ground Water Management, Watershed Development etc. and formulates policy and develop guidelines for planning, implementation, monitoring and evaluation of the projects.

Implementation Arrangements of the Society-

3. The Governing Body of the OCTDMS is chaired by the Agricultural Production Commissioner and includes representatives of various line departments and civil society. Implementation support would be provided by the Departments of Water Resources, Agriculture, Horticulture, Animal Husbandry, Fisheries, Soil Conservation, Rural Development, and various support organizations and private service providers.

4. The Society has an Executive Body is chaired by the Principal Secretary, DoWR, Odisha and includes Project Director, Project Finance Officer, Additional Secretary/ Joint Secretary to Govt. DoWR, Engineer-in-Chief (P&D), Chief Engineer, Minor Irrigation Odisha, Director Agriculture & Food production, Fisheries, Soil conservation, Horticulture, Animal Husbandry, Panchayati Raj, Planning & Co-ordination etc. and various support organisation and NGOs. The Project Director has the Chief Executive Officer of the society and member-secretary of the GB and EB. All financial and executive power of the Society has vest on the Member Secretary who shall be responsible for the planning implementation and monitoring of activities as would be guided and decided by the Society.

5. Flow of Fund of the Society-

The fund of the Society shall consist of the following:

- (i) Grants made by or through Government of India or State Government.
- (ii) All money received by way of grants, transfer or in any other manner from any source other than the source of Government.
- (iii) All money credited to the funds of the Society shall be deposited in Scheduled Bank(s). All withdrawals from funds shall be made by cheques. All cheques shall be signed by two signatories Project Director and Project Finance Officer.

6. Accounts and Audit of the Society-

- (a) The accounts of the Society is maintained on cash basis using double entry book-keeping system.
- (b) The Accounts of the Society are audited by a Chartered Accountant (CAG Empanelled)
- (c) At the close of each financial year, a consolidated statement showing total receipts, payments during the period under head of account with opening & closing balances is prepared.
- (d) A copy of such audit report will be duly signed by the Auditor, Project Director and Project Finance Officer of the Society, approved by the Governing Body of OCTDMS and thereafter furnished the Finance Deptt, Odisha, AG, Odisha, DoWR, Odisha.

7. Background of the Project (OIIPCRA)-

The Government of Odisha is presently implementing the World Bank supported Odisha Integrated Irrigation Project for Climate Resilient Agriculture (OIIPCRA) through the Department of Water Resources (DoWR). The cost outlay of the project is (US\$235.54) out of which (US\$165.00) is funded through World Bank assistance at 70:30 (Centre: state) cost sharing.

8. Objectives of the Project-

The Project Development Objective is to intensify and diversify agricultural production, and enhance climate resilience in selected districts of Odisha.

9. Implementation Arrangements of the project-

The project will be jointly implemented by the DoWR, DAFE, and DoFARD, with each entity taking the technical lead on project activities for which they have the institutional mandate and working through their respective implementation structures at the state, district and community levels in line with the policy of decentralized implementation of GoO programs. Overall project management and leadership will be the responsibility of the DoWR.

There will be a State Project Unit (SPU) established within the Odisha Community Tanks Development and Management Society (OCTDMS) in DoWR for day-to-day management and coordination of project activities, including preparation of annual work plans and budgets (AWPBs), project procurement, ensuring compliance of implementation with safeguards policies, monitoring and reporting progress, etc. The SPU will be headed by a Project Director (PD) and will be staffed with experts in procurement, FM, environment and

social safeguards, M&E as well as other technical skills e.g. agribusiness, fisheries, etc., that are needed for effective project implementation. There will be Project Cells (PCs), one each, in the Directorate of Agriculture and Food Production, Directorate of Horticulture and Directorate of Fisheries at the state-level to be charged with annual work planning and budgeting for their respective activities and interfacing with the SPU, and district officials to offer technical support and guidance in implementation of project elements in their respective components. At the district level, there will be a District Level Project Management Team (DLPMT), comprising of the Executive Engineer – Minor Irrigation (MI), Project Director ATMA, Deputy Director - Horticulture, Deputy Fisheries Officer, and the Executive Engineer - PRDW. The DLPMT will be chaired by the DC and will oversee the day-to-day operations of the project in each district.

10. Components of the project-

The project comprises of the following components/sub-components:

- A. Climate Smart Intensification and Diversification of Agriculture
 - i. Support to Improved Productivity and Climate Resilience*
 - ii. Support to Aquaculture Production*
 - iii. Support to Diversification and Produce Marketing*
- B. Improving Access to Irrigation and Water Productivity
 - i. Support to Water Sector Reforms*
 - ii. Support to Investments in Cascades*
- C. Institutional Capacity Strengthening
- D. Project Management

11. Flow of Funds of the project-

World Bank funds will be made available to the GoO through the GoI, under the standard back-to-back arrangements between the GoI and the State (Govt. of Odisha). The budget will flow to the Dept. of Water Resources, Govt. of Odisha for further disbursement to the implementing entities. After approval of the annual budget and the enactment of the Appropriation Act, the budget will be placed with the PD-OIIPCRA. Office of PD-OIIPCRA will release funds to Chief Engineer, MI and Heads of Department / Line Departments (implementing entities, i.e., Director, Agriculture; Director, Horticulture; and Director, Fisheries) through on-line budget allotment system for scheme related expenditures and capital work-related expenditures. The capital work related provisions will be disbursed using the Works Expenditure module of IFMS. Chief Engineer, MI and Heads of Department / Line Departments (implementing entities) will further disburse the funds to the executing agencies at the project district level using IFMS. On receipt of funds from PD-OIIPCRA, all Controlling Officers will distribute the funds to their field formations, responsible for implementation of the project using IFMS. The field staff of the respective departments will draw the funds from the Treasury, as and when required, submitting the bills and sub-vouchers, sanction orders etc. using the State extant processes. The payments relating to scheme/s will be credited directly to the beneficiary's account.

12. Objectives of the Audit-

- A. The objective of the audit of the Annual Financial Statement (AFS) of OCTDMS is to enable the auditor to express a professional opinion as to whether (1) the AFS give a true and fair view of the sources and applications of funds for the period under audit examination; (2) the funds were utilized for the purposes for which they were provided, and (3) expenditures shown in the AFS are eligible for financing under the relevant loan or credit agreement, where applicable.
- B. The books of account that provide the basis for preparation of the AFS are established to reflect the financial transactions of the project and are maintained by OCTDMS and its constituent state and district level units.

13. 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 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.

Audit Scope-

14. The audit scope covers all receipts and expenditures of OCTDMS from all sources and for all schemes/projects and includes all its constituent state and district level units, as may be applicable.

In conducting the audit of OIIPCRA receipts and expenditures, special attention should be paid to the following:

- (a) 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 include the Financing Agreement, the Project Agreement, and the Minutes of Negotiations;
- (b) Effective project financial management systems³, 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
- (c) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;

- (d) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported where applicable. Clear linkages should exist between the books of account and reports presented to the Bank;
- (e) 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
- (f) Goods and services financed have been procured in accordance with the World Bank procurement guidelines and financing agreements.

Project Financial Statements-

15. The Annual Financial Statements should include-

- A. Receipts & Payments Account, Income & Expenditure Accounts and Balance Sheet;
- B. Other Statements or Schedules which may include separate annexure listing OIIPCRAs annual project expenditures by Project Component.
- C. Management Assertion- Management should sign the annual 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 Appendix 1.

16. 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.

Audit Report-

17. An audit report on the 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 is adverse or a disclaimer of opinion. In addition, the audit opinion paragraph will specify for OIIPCRAs whether, in the auditor's opinion, (1) the funds were utilized for the purposes for which they were provided, (2) expenditures shown in the AFS are eligible for financing under the relevant loan or credit agreement, where applicable, A sample audit report wording are shown at Appendix 2.

Management Letter-

18. In addition to the audit report on the annual financial statements, the auditor may 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:

- observations on the accounting records, systems, and controls that were examined during the course of the audit
- deficiencies or weakness in systems and controls, together with specific recommendations for improvement
- compliance with financial covenants in the financing agreements [for OIIPCRA]
- matters that might have a 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
- any other matters that the auditor considers pertinent.

General-

19. The auditor should 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, 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 10.02, the Bank's internal guidelines on Financial Management that include financial reporting and auditing requirements for projects financed by the World Bank. The auditor should also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor.

Example of a Management Assertion Letter⁶

(Society Letterhead)

(To Auditor)

(Date)

This assertion letter is provided in connection with your audit of the financial statements of the _____ Society 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 society/project financial statements are free of material misstatements, including omissions.
- Society/Project funds have been used for the purposes for which they were provided.
- For OIIPCRA, the Society/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.
- We have made available to you all books of account and supporting documentation relating to the project.

(Project Finance Officer, OCTDMS)

(Project Director, OCTDMS)

⁶ This sample management assertion letter is based on ISA 580, "Management Representations," *Handbook of International Auditing, Assurance and Ethics Pronouncements*, International Federation of Accountants, 2007

MODEL AUDIT REPORT—UNQUALIFIED OPINION⁷

Addressee (OCTDMS)

Introductory Paragraph

We have audited the accompanying financial statements of the [name of Society] as of March 31, 20XX [indicate 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

We have audited the annual financial statements of OCTDMS comprising of Balance Sheet as at March 31, XXXX and the statements of Income and Expenditure and Receipts and Payments for the year ended March 31, 20XX, and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Society as at March 31, XXXX, and its financial performance for the year ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of

India.

[Name and Address of Audit Firm]

[date – Completion Date of Audit]

Example of a Management Letter

(Audit firm Letter head)

(Date)

To Project Director,
OCTDMS

In connection with our audit of the financial statements of the [name of Society] for the year ended _____, we familiarized ourselves with Project documents [applicable for OIIPCRA and....] and the internal guidelines / circulars applicable during the period under audit. We also reviewed the business of the Society and evaluated the accounting systems and related internal controls 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
- 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 Management for the courtesies and cooperation extended to our auditors.

Yours truly,
(Name and Title]

