IDA assisted
ICDS Systems Strengthening and Nutrition Improvement Project (ISSNIP)

FINANCIAL MANAGEMENT MANUAL
(Draft)

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Government of India
Ministry of Women and Child Development
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INTRODUCTION

The Ministry of Women and Child Development, Govt. of India has formulated a project called “ICDS Systems Strengthening & Nutrition Improvement Project (ISSNIP)” with the assistance from the International Development Association (IDA) of the World Bank. The ISSNIP has been designed to supplement and provide value addition on the existing ICDS programme, avoiding any duplication of efforts through systems strengthening for effective programme implementation as well as to allow the select states/districts to experiment, innovate and conduct pilots of potentially more effective approaches for ICDS to achieve specific programme outcomes.

The project is proposed to be implemented in the identified 162 districts having higher proportion of under-weight children (0-6 years) in the eight States, viz. Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh and Andhra Pradesh. The project will also support undertaking urban pilots in ICDS, in and around NCR of Delhi and convergent nutrition action pilots in some selected districts in two States viz., Odisha and Uttarakhand.

1. Program Development Objectives and Implementation Approach

The overall goal of the project is to contribute towards improving the child development outcomes including the nutrition and early childhood education outcomes in the areas with higher proportion of child under-nutrition. The specific objectives of phase 1 of the project are:

- To strengthen the policy framework, systems and capacities of the ICDS at the national level and in 8 selected states to deliver quality services, facilitate community engagement and ensure a focus on children under 3; and
- To strengthen coordinated and convergent actions for nutrition outcomes at the national level and in 8 selected states.

The proposed project will follow a two-phased Adaptable Programme Lending (APL) approach with phase I of 3 years and phase II of 4 years. During phase 1, the project will invest in a combination of high-quality techno-managerial support at the central and state levels and strong implementation support at district and sub-district levels. This support will help strengthen the leadership and operational capacities at different levels, training and monitoring systems and convergent functioning with NRHM and related programmes. This phase of the project will also entail design and conduct of a range of specific pilots in limited areas to generate concrete evidence for approaches that are likely to work at scale to improve programme outcomes. Phase 2 of the project will aim for large scale application of lessons learned and approaches evolved during phase 1 to achieve the measurable outcomes.
1.1 Project Beneficiaries

The main project beneficiaries would be pregnant and nursing women and children under six years of age (with a particular focus on the under-threes). In addition, the project would benefit key stakeholders in building their adequate capacity in the implementation of the ICDS Program and nutrition initiatives, including the programme managers of MWCD at the central, state, district and block levels as well as civil society organizations active in nutrition. Lastly, the project would provide direct support to communities in 8 project states by financing the development, testing and evaluation of models for community participation and engagement in ICDS programme with a focus on nutrition.

1.2 PROJECT DESCRIPTION

Component 1: Institutional and Systems Strengthening in ICDS

This component aims at strengthening the existing systems in ICDS focused on the following six key areas:

i. **Review and refinement/development of guidelines, standards, protocols and procedures in ICDS** related to aspects like human resource policy, decentralized planning, strengthening supplementary nutrition component etc.

ii. **Strengthening and expanding ICDS monitoring systems**, including roll out of the revised MIS, development of tools for programme management and supportive supervision, piloting new initiatives like universal tracking of beneficiaries and computerization of MIS up to block level, etc.

iii. **Strengthening training and capacity building systems**, especially focused on Training Needs Assessment, design and roll out of revised training modules, testing innovative mechanisms for ongoing (incremental) capacity building and enhancing programme management and leadership skills of ICDS officials.

iv. **Strengthening convergence with NRHM** - Activities include designing and implementation of models of convergence, joint trainings, engagement of PRIs in strengthening convergence, etc.

v. **Innovations and specific pilots** including testing flexible models in ICDS specific to urban/sub-urban areas of NCR Delhi and project States and pilot testing approaches like second worker model in limited scale.

vi. **Implementation support at district and block levels** to enhance technical and operational capacities of ICDS staff and to bring focus on critical interventions in ICDS at all levels through additional contractual staff.

Component 2: Community Mobilization and Behavior Change Communication

A primary focus of the project is to re-align the priorities of ICDS towards the needs of 0-3 year olds. As 0-3 year olds are too young to come to the AWC, often reaching out to them requires outreach activities like home visits for counseling parents. The project, therefore, proposes a number of initiatives to strengthen (a) community mobilisation, and (b) behaviour change communication (BCC) in project areas. These initiatives are expected to achieve some of the most critical programme outcomes, i.e., better caring
and feeding of children and better utilization of services for health, nutrition and child development.

a. Activities to enhance community mobilization and participation: Under this sub-component, activities will be related to piloting of models for community engagement, community monitoring like social audits, private public partnership and engagement of CSOs/NGOs for carrying out community mobilization. Other activities will include orientation of community based organizations to enhance their engagement in ICDS and scaling up campaign approaches to community actions.

b. Strengthening Behavior Change Communication: Evidence suggests that the key to overcoming malnutrition is not so much in the provision of food but in the knowledge and practice of nutritionally supportive and secure behaviours by the community. Recognizing this evidence, activities are proposed to strengthen the Behavior Change Communication (BCC) component in ICDS, mainly focusing on the Interpersonal Communication through home-visits by AWWs and synchronized conducting of other media activities in the community based on a comprehensive BCC strategy that is responsive to local context.

Component 3: Piloting Convergent Nutrition Actions

Recognizing multiple determinants of nutrition, it is proposed to address problem of child malnutrition through a comprehensive multi-sectoral response to influence some of the underlying causes. The project proposes to pilot the convergent nutrition actions by developing viable frameworks and tools for supporting planning, coordination and monitoring at all levels, and facilitating the development of such action plans at the state and district level among different sectors. It also proposes to support the designing and implementation of pilots in select areas.

Component 4: Project Management, Technical Assistance, Monitoring and Evaluation

Although the ICDS programme has significantly expanded in the recent years, additional human resources have not been created proportionately at the management level both at the central and state level to guide, support and implement the expanded programme. The existing staffing pattern also does not provide specialist positions in the areas of nutrition, ECE, IEC/BCC, M & E or finance and procurement. It is evident that for a programme of the size and scope of ICDS, mandated to achieve fundamental changes in child development and nutrition at the national level, there are currently inadequate internal technical and managerial resources. The mandate of ISSNIP demands intensive managerial and technical capacity that can translate the best available knowledge and experience to tangible results. The proposed spectrum of technical work demands inputs of high quality, commensurate with the importance and magnitude of the mandate of the project. The ambitious goals of the project also necessitate a certain level of flexible decision making both at the central and state level. It is, therefore, proposed to achieve this through a combination of a strong project management structure at the central level, and state levels and an independent Technical Assistance Agency procured at the central level. While the former will function within the Ministry of WCD at the centre or state Directorates, the latter is conceived as an independent Technical Support Agency, which will be responsible to provide a range of technical assistance at all levels.
The project will establish a strong monitoring and evaluation system in ICDS through introduction of periodic assessment of programme outcomes at the district level and enhancing use of data in programme management and supervision. The project will have a strong impact evaluation with a baseline and end line surveys.

1.3 Purpose of the Manual

The proposed project with World Bank assistance is based on the on-going CSS with certain modifications relating to the pattern of release of Central share in installments to various states and procedures for procurement of goods/services, which have been revised so as to conform to WB approved norms, and for the reimbursement claims to be submitted to the WB to become eligible. This manual is intended for the use of State and Central implementing authorities as well as the WB personnel for information regarding the Scheme and guidelines for its implementation. Guidelines contained in this Manual will be applicable to all States/ agencies participating in the ISSNIP.
CHAPTER -2

INSTITUTIONAL ARRANGEMENTS

2.1 Project Management Structure

In order to achieve the project development objectives and to carry out the planned activities within the stipulated time period, a strong and professional project management structure is required both at the central and state levels. Experience with past IDA-assisted projects suggests that, in the absence of a sufficiently professional and empowered project management, implementation tends to become slow and less effective.

Under the project, the following broad management structure is proposed:

A. An Empowered Project Steering Committee at the central level- The committee will be constituted under the chairmanship of Secretary, MWCD and will provide requisite policy directions to the project and also accord sanctions to the State Annual Implementation Plans. Similar Committees will also be constituted at the State level under the project.

   The committee will be delegated with policy and financial powers to enable it to be responsive and take quick decisions on crucial reform and operational matters, expediting implementation. The powers sought to be delegated are similar to those employed for swifter implementation of NRHM, SSA and other flagship programmes.

B. Separate Project Management Units (PMUs) will be created at the Central and State levels, to support effective planning, management, supervision and monitoring of the project implementation. This will also strengthen the existing overall programme management structures in the project states.

C. Implementation supports at the district and block levels through project-specific contractual appointments.

A Memorandum of Understanding (MoU) will be signed between GOI and the project States before project effectiveness. The MoU will, inter alia, outline States’ commitment to the timely achievement of the planned project activities and project outcomes.

The proposed structure is schematically presented below (Fig 2.1).
Fig 2.1: Project Management Structure

**EMPOWERED PROJECT STEERING COMMITTEE**
*(Within MWCD)*

**CENTRAL PROJECT MANAGEMENT UNIT**

- **Project Director**
  - Supported by
  - **Project Managers**
    (Admin/finance/procurement, Training/BCC, M&E/Proj. Management)
  - **Technical Consultants**
    [Nutrition & Multi-sectoral planning, Social Development & Community Mobilization, BCC & Capacity Building and M & E and Decentralized Planning; Financial Management, Procurement]
  - **Project Associates**

**STATE PROJECT MANAGEMENT UNITS**

- **State Project Director**
  - Supported by
  - **Joint Project Coordinators**
    (@ One Jt. Project Coordinator per 10 districts)
    [Project Management & Admn, Finance & Procurement, M&E etc]
  - **Technical Consultants**
    [Nutrition & Multi-sectoral planning, Social Development & Community Mobilization, BCC & Capacity Building and M & E and Decentralized Planning]
  - **Project Associates**

- **District Programme Officer (ICDS)**
  (Supported by 2 District level staff per District and 2 Block level staff per block)
Empowered Project Steering Committee: Constitution and Powers

The Empowered Committee will consist of the following members:

- Secretary, Ministry of Women & Child Development, GoI (Chairperson)
- Joint Secretary (CDN), Ministry of Women and Child Development, GoI (Executive Vice Chairperson)
- Senior Advisor, Women and Child Development, Planning Commission (Member)
- Financial Advisor, Ministry of Women and Child Development (Member)
- Representative of the Deptt. of Economic Affairs, Ministry of Finance (Member)
- Representative of the Deptt. of Expenditure, Ministry of Finance (Member)
- Representative of the Ministry of Health and Family Welfare, GoI (Member)
- Representative of the Ministry of Elementary Education and Literacy, GoI (Member)
- Project Director (ISSNIP) (Member Secretary)

The Secretary, MWCD will be the Chairperson of the proposed Committee and the Project Director (ISSNIP) will be the Member Secretary. The Joint Secretary in-charge of ICDS Programme in the Ministry of Women and Child Development will be the Executive Vice Chairperson of this committee.

The Empowered Committee will be assigned full financial and administrative powers to approve annual action plans and budgets. Except for release of grants to States/Agencies, no separate reference to the Integrated Finance Division of MWCD will be required as Financial Advisor of MWCD will also participate in the decision making process of the Empowered Committee. The Empowered Committee will meet at least twice in a year to appraise and approve the State proposals and also review the implementation progress.

The Project Director at CPMU will have full financial and administrative powers to approve all procurements based on the approvals by the Empowered Committee. Once approvals have been granted by the Empowered Committee, individual procurements will not be required to be sent to any other authority and procurements will be made by the Project Director as per procurement procedures. No procurement will be initiated outside procurement plan.

2.2 Project Management Units (PMUs)

The Central and State Project Management Units (CPMU and SPMU), built into the MWCD centrally and into the ICDS Directorates at state levels, will consist of teams headed by Project Directors, and will be responsible for executing the project. The project management units will be constituted by a small team of government officers and a number of technical consultants on long-term contracts.

2.2.1 Central Project Management Unit (CPMU)

A. Structure

At the central level, a dedicated project management unit (CPMU) within the MWCD will be established. The CPMU will be headed by a Project Director who will be drawn from the Government and will be in the rank of a Dy. Secretary/Director. A team of professionals and technical consultants will support the PD to steer the project.
implementation. These professionals will include Project Managers and a team of technical specialists covering the key fields of Nutrition, ECE, IEC/BCC, Community Mobilization, Training, Monitoring and Evaluation, Procurement and Finance. The proposed structure of CPMU is depicted in Fig. 2.2.1 The CPMU will be fully responsible to the Empowered Committee for implementation of the project and would be vested with the responsibilities of project management and supervision. Further the CPMU will be an equal partner in the Supervision/ Appraisal Mission of the World Bank. In designing the management structure of CPMU, the desirable features of similar programmes/organizations like National AIDS Control Programme, National Rural Health Mission, SSA, ICPS and World Bank assisted ICDS-III project have been consulted and infused.

**Fig. 2.2.1 Proposed structure of CPMU**

**B. Overall Roles and Responsibilities of CPMU**

The CPMU will have the overall project implementation responsibility, and will be responsible for project outcomes/results.
C. Staffing: The proposed staffing in the CPMU is shown in the following Table.

Table 2.2.2: Proposed staffing in CPMU

<table>
<thead>
<tr>
<th>S. No</th>
<th>Position proposed</th>
<th>No. of persons</th>
<th>Govt/ Contractual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Project Director</td>
<td>1</td>
<td>Govt.</td>
</tr>
<tr>
<td>2.</td>
<td>Project Managers (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Project Management and M &amp; E Finance</td>
<td>1</td>
<td>Govt.</td>
</tr>
<tr>
<td></td>
<td>(ii) Admin. &amp; Finance</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iii) Procurement</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Technical Consultants (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Nutrition &amp; Child Development</td>
<td>1</td>
<td>Contractual</td>
</tr>
<tr>
<td></td>
<td>(will also look after multi-sectoral actions)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Social Development &amp; Community Mobilization</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. BCC &amp; Capacity Building</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. M &amp; E and Decentralized Planning</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Other Consultants (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Systems Analysis/Data Management</td>
<td>1</td>
<td>Contractual</td>
</tr>
<tr>
<td></td>
<td>b. Financial Management</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Procurement</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Project Associates</td>
<td>4</td>
<td>Contractual</td>
</tr>
<tr>
<td>6.</td>
<td>Section Officer</td>
<td>1</td>
<td>Govt.</td>
</tr>
<tr>
<td>7.</td>
<td>Accountant</td>
<td>1</td>
<td>Govt.</td>
</tr>
<tr>
<td>8.</td>
<td>Steno/PA to the Project Director</td>
<td>1</td>
<td>Contractual</td>
</tr>
<tr>
<td>9.</td>
<td>Office Messenger/Peon</td>
<td>2</td>
<td>Contractual</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>20</strong></td>
<td></td>
</tr>
</tbody>
</table>

2.2.2. State Project Management Units (SPMUs)

A. Structure

The SPMUs at the state level will be constituted within the State Directorates and will have a structure similar to CPMU, and will also be headed by a Project Director of similar rank (the Director in charge of ICDS may be designated as Project Director). The SPDs will be supported by Joint Project Coordinators (JPCs) at the rank of Dy. Director/Jt. Directors who will be drawn from the State Government and will be assigned the tasks of Project Management, Finance, Procurement, M & E etc. One JPC per 10 districts is proposed in SPMUs. There will also be a group of Technical Consultants on long-term contract and other support staff. The proposed structure of SPMUs is given in Fig. 2.2.3.
As mentioned earlier, State Empowered Project Steering Committee will also be constituted at the State level on the same pattern as that of the Central level. The Empowered Committee will be assigned full financial and administrative powers to approve annual action plans and budgets. No separate reference to the Finance Department of the State will be required as Representative of the State Finance Department will also participate in the decision making process of the Empowered Committee. The Empowered Committee will meet at least twice in a year to appraise and approve the annual action plans, procurement plan and budgets and also review the implementation progress.

The Project Director at State PMU will have full financial and administrative powers to approve all procurements based on the approvals by the Empowered Committee. Once approvals have been granted by the Empowered Committee, individual procurements will not be required to be sent to any other authority and procurements will be made by the State Project Director as per procurement procedures. No procurement will be initiated outside procurement plan.
B. Staffing: Table below shows the proposed staffing in the SPMUs.

### Table 2.2.4: Proposed staffing in SPMU

<table>
<thead>
<tr>
<th>S. No</th>
<th>Position proposed</th>
<th>No. of persons per State/district</th>
<th>Govt/Contractual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>State Project Director (SPD)</strong> (Director in charge of ICDS will be designated as SPD)</td>
<td>1</td>
<td>Govt.</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Joint Project Coordinators (JPCs)</strong> JPCs will be in charge of:</td>
<td>1 per 10 districts Total 19 JPCs in 8 States [UP-4, Bihar-2, MP-3, Maharashtra-2, Jharkhand-2, Chhattisgarh-2, Rajasthan-2, AP-2]</td>
<td>Govt. (on deputation)</td>
</tr>
<tr>
<td></td>
<td>- Project Management and M &amp; E</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Admin. &amp; Finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Procurement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- IEC/BCC and Training, etc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td><strong>Technical Consultants (6)</strong></td>
<td>6 per State</td>
<td>Contractual</td>
</tr>
<tr>
<td></td>
<td>- Nutrition &amp; Child Development (will also look after multi-sectoral actions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Social Development &amp; Community Mobilization</td>
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<tr>
<td></td>
<td>- BCC &amp; Capacity Building</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- M &amp; E and Decentralized Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Financial Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Procurement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td><strong>Accounts Officer</strong></td>
<td>1 per state</td>
<td>Govt.</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Secretarial Assistants</strong></td>
<td>2 per state</td>
<td>Contractual</td>
</tr>
<tr>
<td>7.</td>
<td><strong>Office Messenger/Peon</strong></td>
<td>2 per state</td>
<td>Contractual</td>
</tr>
</tbody>
</table>

C. Role and Responsibilities of SPMUs

The SPMUs are ultimately responsible for ensuring project implementation and achievement of results in the state.

2.3 Technical Assistance (TA) Agency

There are wide-ranging technical support needs of the ICDS programme and of the national initiative to comprehensively address malnutrition, and these are difficult to provision from within existing GoI/State Government resources. The project therefore
has envisioned the provision of a Technical Agency to provide support in several key areas such as developing robust guidelines for tracking and assessing child development, standardizing skills for imparting ECE and designing feasible policies for handling learning disabilities as also support and guidance to the district and block teams of ICDS, including the additional implementation support staff at these levels. It is proposed that the CPMU and the SPMUs, constituted as described earlier, will manage the partnership with such an agency or consortium and calibrate its inputs according to programme needs.

The Technical Support Agency will simultaneously organize itself to support the ICDS programme at all levels down to the block, to help the programme leadership at these levels implement the reformed programme in its true spirit. In effect, the agency will also be organized in a hierarchy of levels that mirrors and parallels the programme implementation structure of ICDS.
Chapter – 3

Budgeting

Preparation of proper Budget plays an important role in timely implementation of a project or scheme. Budget involves identifying specific tasks / objectives of the project to be achieved in a time frame. Before seeking funds from Government of India, the concerned States must estimate funds required for accomplishment of the project / scheme.

It would be mandatory on the part of the State Governments to make sufficient provision in their budget for meeting the expenditure to be incurred under this Scheme. Every Year the State should inform the CPMU of the proposed budget provision by end of November and by April or earlier the approved provision. This budget should be separate from the budget for the ICDS General Programme.

Budget Calendar / time table may be prepared and approved well in advance by the respective State in the form of Institutional Development Plan (IDP) so that the funds required for implementation of IDP can be included in the State Budget.

Every effort should be made to link the budget with physical targets, i.e. activities to be accomplished in the given time. Any variation in the budget should be analyzed and reasons for adverse variation should be studied and considered for future budgeting.

Various Formats required for preparation of budget along with Utilization Certificate in prescribed form GFR 19-A is at Annexure-I.
Chapter – 4

Flow of Funds, Accounting and Project Monitoring

Efficient funds flow has a critical role in smooth implementation of a project. Arrangement and placement of adequate funds at the right time and at the right place will result in timely achievement of project objectives. Financial Management arrangements for the Project have been established taking into account the nature of activities and the multiple implementing locations i.e. the eight states where a significant part of the expenditure is expected to be incurred.

According to the general principles relating to Grants-in-aid to State Governments / UTs laid down in the General Financial Rules, 2005 [Rule 215 (2)], every CSS should be treated as a Project with time bound targets for monitoring, midterm evaluation and detailed impact studies. According to Rule 239 of the GFRs, 2005 which pertains to the fund flow for Central or Centrally Sponsored Projects, the process of disbursement of such claims by the Funding Agency shall be the same as explained in Rule 237 (i) (a) of the GFRs. [This Rule explains one of the procedures laid down for withdrawal of funds from the loan or grant account, namely Reimbursement procedure.] The Ministry gets funds when Demands for Grants are passed in the Parliament and advised by the Budget Division of the Ministry of Finance. The funds shall be released to the State Governments with reference to expenditure incurred by the implementing agency.

It is clarified that that States shall receive 90% funds from the Central Government against the project allocations for the States and the balance of 10% will be borne by the States.

Project Directors in the Project Implementing States would be delegated with necessary financial & administrative powers as mentioned in Section A of MoU to undertake various activities that are required for speedy project implementation.

MWCD would be required to submit half-yearly expenditure information to the Bank through Interim Unaudited Financial Reports (IUFRs) (Ref. Annexure-2) , within 60 days of close of the half year. These IFRs will have to be prepared by the states and be consolidated by CPMU before onward submission to the Bank. Reporting through the IFRs will have the advantages of (a) regular reporting of expenditure information, thus ensuring timely monitoring (b) regular reimbursement from the Bank, thus ensuring timely receipt of the loan/ credit funds.
The external assistance follows the route given below:

![Diagram showing flow of funds]

In case of States covered under the Project, the funds would be sanctioned / released directly to them from the budget of the Ministry. The Project Director in the State WCD would be responsible for utilization of funds and submission of reports as per World Bank norms to CPMU.

4.1 Funds Flow Arrangements

Each year the project plan will be budgeted under the head of ‘Externally Aided Project’ by the MoWCD. The Ministry will release funds to the states through GoI channels and funds will be received in the State Treasury. At the state level the Directorate will prepare a budget for the entire expenditure; Drawing and Disbursal Officers (DDOs) at the state and district levels will make payments for various project activities by drawing on the allocated budget.

In the proposed CSS with World Bank assistance, the funds would be released as follows:

1st Year:

The funds required would be released in two installments (April & October respectively) in a financial year taken together (for a year) on the basis of Project implementation Plan (PIP) for ISSNIP submitted by the respective State Government. The number and size of installments to be released in first year are proposed below:
2nd Year:

In 2nd year, the number and size of installments, however, would remain the same. The 1st installment of 50% of GOI share for 2nd Year would also be released for Expenditure component taken together (for a year) on the basis of Project implementation Plan (PIP) for ISSNIP submitted by the respective State Government on the receipt of Utilization Certificate in GFR 19-A for the 1st installment released during the previous Financial Year.

Similarly 2nd installment of 50% would be released on the receipt of Utilization Certificate in GFR 19-A for the 2nd installment released during the previous Financial Year.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Installment Number / Month of release</th>
<th>Installment (%)</th>
<th>Documents to be submitted by State/UT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd and subsequent years</td>
<td>1st April</td>
<td>50%</td>
<td>Annual Project implementation Plan (APIP) and utilization certificate (UC) for 1st installment of 50% (to the extent expenditure incurred) released in previous financial year and Statement of Expenditure.</td>
</tr>
<tr>
<td></td>
<td>2nd October</td>
<td>50%</td>
<td>Utilization Certificate for 2nd installment of 50% (to the extent expenditure incurred) released in previous financial year and Statement of Expenditure.</td>
</tr>
</tbody>
</table>

**Note:** The unspent balances available with the State Governments should be taken into account before further releases of funds are made. The amount may be accordingly restricted.

The State Governments should submit Utilization Certificates in respect of the expenditure incurred while submitting proposals for release of subsequent installment of funds. In addition, State Governments and the MWCD may conduct inspections to ascertain the progress of implementation of the project.
The State Governments should furnish comprehensive proposals for all their requirements covered under the Scheme instead of piece-meal proposals.

The letters issued by MWCD regarding the sanction and release of funds to the States should include, if possible, an authorization/direction to the State Government to provide for provision in the budget of the State in respect of the total expenditure estimated to be incurred under the Project during the financial year. The appropriate 'Reference Number(s) along with dates' relating to the transfer of funds from Pay & Accounts Office, MWCD to Reserve Bank of India, Nagpur and subsequently to the States, will be intimated to the concerned State Directorate/Commissionerates so as to enable them to follow up the matter with the authorities at the State Government level.

4.2 Accounting

Accounting will be done on a cash basis, using Government systems; expenditure will be recorded and reported at time of payments and not at time of release of funds (or authorization through the treasury system) to a subordinate offices.

Adequate records will be maintained at accounting locations and will include vouchers, invoices, cash books, ledgers and asset registers. Summary of transactions will be sent to the next higher level based on specific formats.

**Accounting and Financial Management will be guided by this manual which has been so designed not to conflict with GFR. In case of any differences on perception on any matter, the same may be referred to CPMU for clarifications.**

**Accounting Locations:**

The District head quarter will be accounting location for the projects located in that particular district. The DPO would be responsible for maintaining all records of advances, payments and vouchers in original. Expenditure could be incurred by CDPO of the particular block by drawing advances for various activities. No separate Bank accounts will be permitted to be opened at any of the accounting locations. Only treasury system will be allowed for all financial transactions. Table below shows the number of accounting locations in the selected states.
Table 4.2.1: Showing number of Accounting Locations in various States

<table>
<thead>
<tr>
<th>S. No.</th>
<th>State</th>
<th>Number of districts covered under ISSNIP (Accounting Locations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Uttar Pradesh</td>
<td>41</td>
</tr>
<tr>
<td>2.</td>
<td>Madhya Pradesh</td>
<td>30</td>
</tr>
<tr>
<td>3.</td>
<td>Maharashtra</td>
<td>20</td>
</tr>
<tr>
<td>4.</td>
<td>Rajasthan</td>
<td>19</td>
</tr>
<tr>
<td>5.</td>
<td>Bihar</td>
<td>19</td>
</tr>
<tr>
<td>6.</td>
<td>Chhattisgarh</td>
<td>11</td>
</tr>
<tr>
<td>7.</td>
<td>Jharkhand</td>
<td>12</td>
</tr>
<tr>
<td>8.</td>
<td>Andhra Pradesh</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>162</td>
</tr>
</tbody>
</table>

4.3 Financial Reporting and Disbursement Arrangements

Project expenditures will be reported by district level implementing entities to the State PMUs and by State PMUs to the Central PMU. As per standard procedures, states will also submit utilization certificates (UCs) to the Central PMU for funds received by the state in each financial year.

Disbursements from the World Bank will be made against half-yearly Interim Financial Reports (IFRs) to be submitted within 60 days of close of each half-year. The IFRs will provide information on project activities according to project components and project states; these will include expenditure for the previous six months, year to date and project to date. Expenditure as reported in the IFRs will be subject to confirmation/certification as per the Annual Audit Reports as submitted for each State/GoI. The Central PMU in the MoWCD will be responsible for consolidation and submission of IFRs. Funds will be disbursed in a Special Account with the Reserve Bank of India which will be operated by the Department of Economic Affairs (DEA) of GoI.

4.4 Other disbursement features:

- Disbursement would be subject to receipt of Consolidated Report on Audit which is due by September 30th of each year. As per the Bank Policies, if this report is not received by end January of the following year, disbursements will have to be suspended till receipt of the report. GoI would however continue to submit the IFRs as per schedule.
- If the audit report indicates a higher level of eligible expenditure as compared to the IFRs for the same period, the excess will be added to the next report based disbursement. On the other hand, if the audit reports a lower level of eligible expenditure as compared to the IFRs for the same period, an adjustment will be made from the next disbursement by way of a reduction.
- In case of delay in submission of an audit report by a state, GoI would not hold back submission of the Consolidated Report on Audit to the Bank. If such state audit reports are submitted to the GoI at a later date, a revised
Consolidated Report on Audit may be submitted to the Bank latest by end April.

4.5 AUDIT

Annual accounts of the Project implementing entities (States and CPMU) will be audited by Comptroller and Auditor General of India (C&AG). The Accountant General (AG) of each state will carry out annual audit of accounts of the Directorate and the various implementing entities in that state. These audits will be as per a Terms of Reference (ToR) which has been agreed with the C&AG for all World Bank funded Projects in India. A copy of the ToR is at Annexure-II. The MoWCD will provide copies of these Audit reports to the Bank within six months of close of each financial year i.e. by September 30. Along with the submission to the Bank, the reports would also be put up on the MoWCD/ Project website. Further, the CPMU will (a) review the audit findings and follow up with States to ensure necessary corrective action including timely settlement of observations/ disallowances (b) compare/analyze reported expenditure with audited expenditure and monitor all disallowances.

4.6 Internal Control and Management Review (MR)

To evaluate the operational aspects of project implementation a Management Review (MR) of the states will be carried out. The MR function under the project will be regularly carried out by a firm of Chartered Accountants or Management Consultants. Qualifications of the firm would be subject to review by the Bank and the Terms of Reference for the audit has been documented in the FM Manual; the firm will be hired by the MWCD and the review will be on a periodic basis. The review will be mobilized when the implementation is well underway and/ or it may cover states where certain problems have been perceived; in other words the review scope and coverage will be kept flexible and responsive to project needs. The review is expected to focus on: (a) testing implementation of internal controls as per project FM Manual; (b) review of procurement practices; (c) budget releases, funds availability; (d) timeliness and accuracy of reporting; (e) adequacy of documentation; (f) implementation bottlenecks; and (g) others. This review would result in action points for the states which will be reviewed by the Bank during regular project supervision. A copy of the proposed ToR is at Annexure-III.

4.7 Retroactive Financing

The World Bank will fund cost of Project preparation on retroactive basis for "eligible expenditures" that will be made in accordance with Bank guidelines on procurement, financial management and safeguards. Total amount of retroactive financing of expenditures will not exceed 20 per cent of total credit/loan. Any expenditure in excess of 20 per cent of total credit/loan will be borne by Government of India/States. Eligible expenditure can be borne up to a maximum of 12 months prior to the World Bank approval of the project.
4.8 Advances

As mentioned earlier in this manual District will be accounting location for all the projects falling under its jurisdiction. However funds will need to be provided to Blocks/projects for some of the activities as indicated in State PIPs. These will be treated as advances and will have to be settled by the concerned Project officer by submitting original vouchers and accounts statements to the office of DPO at district HQ.

The State Directorate/Commissionerates should ensure that the World Bank accepted procedures are followed while incurring expenditure under the project so that the expenditure becomes eligible for reimbursement from the World Bank.

It may be stated that other than exceptions mentioned in this manual, no fund shall be drawn outside the State Treasury. All payments shall be made directly by the State Treasury.

Advances if not actually spent, and for which accounts have not been settled, should be shown as advances and not as expenditure. Similar procedure should be also followed for funds released at district level.
4.9 Norms for regulating advances: The following norms will be followed for regulating advances to Project offices (CDPOs) which will constitute expenditure only when supported by appropriate vouchers and expenditure statements.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Activities</th>
<th>Periodicity of release</th>
<th>Financial Limit of the advance</th>
<th>Basis for next release</th>
<th>Time limit for submission of documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Incremental learning meeting at Block level</td>
<td>Quarterly in first year and six monthly in second year</td>
<td>Rs.21,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within One month of completion of each meeting</td>
</tr>
<tr>
<td>2.</td>
<td>Incremental learning meeting at sector level</td>
<td>Quarterly in first year and six monthly in second year</td>
<td>Rs.25,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within One month of completion of each meeting</td>
</tr>
<tr>
<td>3.</td>
<td>Joint Training of ASHA, ANM and AWWs on specific themes by BRG</td>
<td>Six monthly</td>
<td>Rs.15,500/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within One month of completion of each training.</td>
</tr>
<tr>
<td>4.</td>
<td>Meeting of Block level convergence committee</td>
<td>Quarterly</td>
<td>Rs.15,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within One month of completion of each meeting</td>
</tr>
<tr>
<td>5.</td>
<td>Sub center level meetings of ASHA, AWW and ANM for joint planning and review</td>
<td>Six Monthly</td>
<td>Rs.10,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within two months of completion of half the number of such meetings proposed for the year.</td>
</tr>
<tr>
<td>6.</td>
<td>Partnership with local NGOs for conducting social audits in selected areas</td>
<td>Annual</td>
<td>Rs.20,000/-</td>
<td>Submission of expenditure statement and supporting vouchers and report of the social audit</td>
<td>Within two months of completion of the Social audit</td>
</tr>
<tr>
<td>7.</td>
<td>Orientation of CBOs like mothers’ groups/committees, mahila mandals, SHGs, tribal leaders at AWC level.</td>
<td>Quarterly</td>
<td>Rs.25,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within one month of the close of each quarter</td>
</tr>
<tr>
<td>8.</td>
<td>Organization of traditional community level events such as Anna Prashan, Godh Bharai, Kheer Khilai etc.</td>
<td>Quarterly</td>
<td>Rs.20,000/-</td>
<td>Submission of expenditure statement and supporting vouchers</td>
<td>Within one month of the close of each quarter</td>
</tr>
<tr>
<td>9.</td>
<td>Mobility Support for Supervisors</td>
<td>Quarterly</td>
<td>Rs.5,000/-</td>
<td>Submission of acquittance rolls for payments.</td>
<td>Within one month of the close of each quarter</td>
</tr>
</tbody>
</table>

Note: (i) All releases shall be made to CDPO and he/she shall be responsible for expenditure, submission of documents etc. (ii) Subsequent release should be only to the extent of vouchers submitted.
This process will ensure that audit will only extend to the State and district offices. The CDPOs will be provided advances but will not be considered as accounting locations. Audit of expenditure incurred against advances provided to CDPOs, will be conducted in the district office which will have all the original vouchers and documents.

*It may be noted that advances for different concurrent activities can be released without insisting on settlement of previous advances. However, if there is delay in settling the advance for a particular activity within the time limit prescribed, no further advance should be released till the advance of that activity is settled.*
Annexure-I

FORM GFR – 19A

FORM OF UTILISATION CERTIFICATE

FOR THE SCHEME ..............................................

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Letter No. and date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Certified that out of Rs._________ of Grants-in-Aid released during the FY_________ in favour of Govt. of ______ under the Ministry’s letter No. given in the margin and Rs. __________(amount in words) on account of unspent balance of the previous year, a sum of Rs. _________ (amount in words) has been utilized for the purpose of __________________________ for which it was sanctioned and that the balance of Rs. __________ remaining un-utilized at the end of the year has been surrendered to Govt. vide letter No. _______ dated ________ / will be adjusted towards the grant- in-aid payable during the next year. Out of the total expenditure of Rs. __________ incurred on project, 90% GOI share comes to Rs. _________ and 10% State share is Rs. __________.

Certified that I have satisfied myself that the conditions, on which the grant-in-aid was sanctioned, have been duly fulfilled on that, and I have exercised the following Checks to see that the money was actually utilized for the purpose for which it was sanctioned.

**Kinds of Checks exercised:**

1. Procurement procedure followed as per norms.
2. Procurement certificate furnished.
3. Any other check required as per the guidelines.

*Signature of Project Director*

*Date*

*Name of State*
**Annexure-2**

**IUFR Formats**

**ICDS System Strengthening & Nutrition Improvement Project**

**Project Report Format - 1**

**Semi-annual Interim Unaudited Financial Reports (IUFRs)**

*Report for the period ended on_______________*

(Amount in Rs Lakh)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>For the Quarter</th>
<th>Cumulative</th>
<th>Forecast for next 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Year till date</td>
<td>Project till date</td>
</tr>
<tr>
<td><strong>Opening Balance (A)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt. of India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Receipts/ Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Receipts (B)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Sources (C = A + B)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Expenditures by Component**

A. Institutional and Systems Strengthening

A.1. Review, refinement of policies/ guidelines/ procedures

A.2. Strengthening and Expanding Monitoring Systems


A.4. Convergence with NRHM

A.5. Innovations in Implementation

A.6. Strengthening Program Stewardship/implementation support

B. Community Mobilization and BCC

B.1. Outreach interventions to CBOs

B.2. Strengthening Behaviour Change Communication

B.3. Review of community mobilization models/implement pilots

C. Convergent Nutrition Actions

C.1. Develop conceptual frameworks/tools

C.2. Set up/strengthen planning, coordination and monitoring structures

C.3. Planning, implementation and evaluation of pilots
### C.4. Evaluation and operations research

<table>
<thead>
<tr>
<th>D. Project Management; M&amp;E</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.1. Project Management Units - Centre and States</td>
</tr>
<tr>
<td>D.2. Technical Assistance Agency</td>
</tr>
<tr>
<td>D.3. Project Monitoring &amp; Evaluation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total Expenditures (D)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advances to Suppliers/ Others</strong></td>
</tr>
<tr>
<td><strong>Total Advances (E)</strong></td>
</tr>
<tr>
<td>Less: Recovery/ Adjustment of Advances (F)</td>
</tr>
<tr>
<td><strong>Net Advances (G = E - F)</strong></td>
</tr>
<tr>
<td><strong>Total Uses (H = D + G)</strong></td>
</tr>
<tr>
<td><strong>Closing Balance ( I = C - H)</strong></td>
</tr>
</tbody>
</table>

Note: Closing Balance will be as per Project Books of account, as on date of the report.
ICDS System Strengthening & Nutrition Improvement Project  
Project Report Format - 2  

Semi-annual Interim Unaudited Financial Reports  

Report for the period ended on ________________

(Amount in Rs Lakh)

<table>
<thead>
<tr>
<th>Expenditure by State</th>
<th>For the Quarter</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Year till date</td>
</tr>
<tr>
<td>Name 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name 2</td>
<td></td>
<td></td>
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<tr>
<td>Name 3</td>
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<td></td>
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<tr>
<td>Name n</td>
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</tbody>
</table>

| Total Expenditures   |                 |             |                |
ICDS System Strengthening and Nutrition Improvement Project
Project Report Format - 2

Semi-Annual Financial Monitoring Report - (World Bank Funds requirement)

Report for the period ended on __________________

(Amount in Rs Lakh)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Funds received till date</td>
<td>I</td>
</tr>
<tr>
<td>Total Project Uses till date</td>
<td>II</td>
</tr>
<tr>
<td>World Bank Share @ 70% of the above</td>
<td>III</td>
</tr>
<tr>
<td>Funds Unutilized - if any (I - III)</td>
<td>IV</td>
</tr>
</tbody>
</table>

Note:
Total Project Uses till date ' II ', will be the same as Total Uses ' H ' as per Project Report Format I, Column 4
ICDS System Strengthening & Nutrition Improvement Project

Project Report Format - 4

Payments made against Contracts Subject to Prior Review

<table>
<thead>
<tr>
<th>Contract No</th>
<th>WBR Number</th>
<th>Supplier</th>
<th>Contract Date</th>
<th>Contract Amount</th>
<th>Date of WB's No Objection Letter</th>
<th>Amount Paid to Supplier during the quarter</th>
<th>Cumulative payment made so far</th>
<th>% of contract amount and total payment made</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
Annexure-3

Terms of Reference for Audit of ISSNIP

Terms of Reference for CAG Audit of World Bank Assisted Projects in India, as circulated by the Department of Economic Affairs, Ministry of Finance’ O.M. No. 17/7/2006-F.II dated the 20th March, 2009, which are reproduced in the following pages, will be adhered to.

TERMS OF REFERENCE FOR THE AUDIT OF PROJECT FINANCIAL STATEMENTS OF
(PROJECT NAME) (for audits conducted by CAG)

Background

(Project Aims, timelines and Objectives)

Objective

The essence of the World Bank audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank loans were used for the purposes intended that the annual project financial statements are free from material misstatement, and that the terms of the loan agreement were complied with in all material respects.

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion as to whether (1) the PFS present fairly, in all material respects, the sources and applications of project 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 PFS are eligible for financial under the relevant loan or credit agreement. In addition, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports submitted by project management may be relied upon to support any applications for withdrawal, and whether adequate supporting documentation has been maintained to support claims made by project management for reimbursement of expenditures incurred under the statement of expenditure method of reimbursement.

The books of account that provide the basis for preparation of the PFS are established to reflect the financial transaction of the project and are maintained by the project implementation agency, Project implementation unit and the participating divisions.

Standards

The audit will be carried out in accordance with the Auditing Standards Promulgated by the comptroller and Auditor General of India. The auditor should accordingly consider materiality when planning and performing the audit to reduce audit risk to an acceptable level that a consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purpose other than as defined
in the legal agreement remains with the borrower, the Audit should be planned so as to have reasonable expectation of detecting material misstatements in the project financial statements.

1. The background should normally include a detailed description of the project including information on project sources of funding; the purposes for which the funds are intended and a general description of implementation arrangements including the organizational structure of all implementing entities.

2. “World Bank” includes the international Development Agency and the international Bank for Reconstruction and Development. “ Loans” includes credits and grants to which the TORs would apply and “Borrower” includes recipients of such loans.

3. The Bank’s charter {Article III Section V(b) of IBRD Articles of Agreement and Article V Section 1 (g) of IDA Articles of agreement} specify that “ The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations”

**Scope**

In conducting the audit, 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) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;

(c) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via SOEs/ SAs/or FMRs where applicable. Clear linkages should exist between the books of account and reports presented to the Bank and

(d) The project accounts have been prepared in accordance with consistently applied government accounting standards and present fairly, in all material respects the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.

**Project Financial Statements**

The project financial statements should include-

A Statement of Sources and application of funds: The contents of Project Financial Statement (PFS) are specific to the sector, the project design and the type of implementing entity. The formats therefore vary from one project to another. The formats of PFS are prepared in consultation with the implementing entity during the preparation of the project.
See Annexure-1 for an example of a Statement of Sources and Application of funds that could be prepared for a project implemented by core government departments.

B Reconciliation of Claims to total application funds: The PFS include a reconciliation between expenditure reported as per the Statement of sources and Application of funds and expenditure claimed from the world Bank through statement of Expenditure (SOE) documented claims or report based methods of reimbursement. An example is shown at Annexure-2

C Other statements or schedules as may be applicable in particular circumstances and as specified in the relevant legal agreements such as:

- A statement showing appropriate major heads of expenditure (say by Project Component/ sub-components)

4. In response to identified project risks the scope may be expanded to include a report or the expression of an opinion on specific aspects of the operation such as internal controls, compliance with Bank procurement policies, or efficiency and effectiveness in the use of loan proceeds.

5. Until such time as the pronouncements of the Government Accounting Standards Advisory Board are accepted and prescribed by the Ministry of Finance, the accounting standards followed by the Government of India will be defined by the General Financial Rules. PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operation of the project.

- A summary of cumulative expenditures by category of expenditure such as buildings, equipment, furniture, vehicles, major rehabilitation of canals etc.

D Management Assertion: Management should sign the project 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 Annexure-3

**Statements of Expenditures and financial management reports**

In addition to the audit of the PFS the auditor is required to audit all statements of Expenditures (SOEs) and/ or financial management reports (FMRs) for withdrawal applications made during the period under audit examination. 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**

An audit report on the project financial statements should be prepared in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General 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 in adverse or a disclaimer of opinion” In addition the audit opinion paragraph will specify whether, in the auditor opinion, (a) with respect to SOEs adequate supporting documentation has been maintained to support claims
to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to the audit report, expenditures are eligible for financing under the Loan/Credit agreement. A sample audit report wording for an unqualified audit opinion is shown at Annexure-4. Relevant CAG auditing standards are reproduced in Annexure-5.

The Project financial statements and the audit report should be received by the Bank not later than 6 months after the end of the fiscal year. The auditor should also submit two copies of the audited accounts and audit report to the implementing agency.

The audit report is issued without prejudice to CAG right to incorporate the audit Observations in the Report of CAG of India for being laid before parliament/ State or UT Legislature

**Management Letter**

In addition to the audit report on the project 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 where a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank. Else, a written advice may be made that no management letter was prepared together with the audit report on the project financial statements.

6. See relevant portions of auditing Standards of the Comptroller and Auditor General of India as applicable from time to time.

**General**

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 Banks’ 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 internal guidelines on financial management that include financial reporting and auditing requirements for project financial 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.
Sample Audit Report – Unqualified Opinion

Report of the Comptroller and Auditor of India

Addressee

Report on the Project Financial Statements

We have audited the accompanying financial statements of the ____________ Project financed under World Bank Loan No._________ / IDA, which compose the Statement of Sources and Application of funds and the Reconciliation of Claims to Total Applications of Funds for the Year ended _________. These statements are the responsibility of the Project’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 Standards promulgated by the Comptroller and Auditor General 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. Our audit examines, on a test basis evidence supporting the amounts and disclosures in the financial statements. It 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 present fairly, in all material respects, the sources and application of funds of _________ project for the year ended ___________ in accordance with Government of India Accounting Standards.

In addition in our opinion, (a) with respect to SOEs adequate supporting documentation has been maintained to support claims to the World Bank for reimbursement of expenditures incurred. 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 Loan/Credit Agreement during the course of the audit, SOEs/FMRs (each application no. and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the Loan/ Credit Agreement.

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8. See relevant portions of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified adverse or disclaimers of opinion may appropriately be rendered.

9. The auditor’s report should be addressed to the pension stipulated to the underlying loan agreement as responsible for providing audited project financial statements.

10. Inset titles of other required statements and schedules included in or annexed to the project financial statements, If any.
11. Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IRSAS, the accounting standards followed by the Government of the shall be the cash basis of accounting applied with the regard to the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes are in effect end applicable to the operations of the project.

This report is issued without prejudices to CAG’s right to incorporate the audit observation in the Report of CAG of India for being laid before parliament/State or UT Legislature.

(Auditor’s Signature)

(Auditor’s Address)

Date

12. 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 field work, as opposed to the date of signing the audit report.
Annexure-5


11. The form and content of audit opinion and report.

11.1 The form and content of all audit opinions and reports are founded on the following general principles:

(a) **Title:** The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.

(b) **Signature and date:** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).

(c) **Objectives and scope:** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.

(d) **Completeness:** Opinions should be appended to and published with the financial statements to which they relate. Out performance reports may be free standing. The auditor’s opinions and reports should be presented as prepared by the auditor. In exercising its independence CAG may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor should consider the need to make a report, possible including confidential or sensitive material in a separate, unpublished report.

(e) **Addressee:** The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery.

(f) **Identification of subject matter:** The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity. The date and period covered by the financial statements and the subject matter that has been audited.

(g) **Legal basis:** Audit opinions and reports should identify the legislation or other authority providing for the audit.

(h) **Compliance with standards:** Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
(i) **Timeliness:** The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

11.2 An audit opinion’s normally in a standard format, relating to the financial statements as a whole thus avoiding the need to stare at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate 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.

11.3 An unqualified opinion is given when the auditor is satisfied in all material respects that:

(a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied.  
(b) The statements comply with statutory requirements and relevant regulations;  
(c) The view presented by the financial statements is consistent with the auditor’s knowledge of the audited entity; and  
(d) There is adequate disclosure of all material matters relevant to the financial statements.

11.4 **Emphasis of Matter:** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as “emphases or matter” are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to or a substitute for qualifying the opinion.

11.5 **Adverse Opinion:** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion make clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

11.6 **Disclaimer of opinion:** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording
of such a disclaimer makes clear that an opinion cannot be given. Specifying clearly and concisely all matters of uncertainty.

11.7 It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.