



**Ministry of Health and Family Welfare
Government of India**

E-Training Module on “Statutory Audit”

April, 2011

Financial Management Group, NRHM

Learning Objective of the Module

The aim of this training module on Audit Arrangements is to help the finance and accounts staff to develop an understanding of the following:

- ✓ Various types of audits to be conducted at the state/ district level and their purpose
- ✓ Process of selection and appointment of the auditors, scope of work for auditors and essentials of an audit report
- ✓ Timelines for conducting the audit and submission of the audit reports
- ✓ Analysis of the audit report and necessary follow up action to be taken

Contents of the Module

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AUDIT

Audit and its Objective

What is Audit ?

Audit is an independent examination of financial information of an entity

Objective of Auditing

- To assess and provide an opinion on whether the Financial Statements present a “True and Fair” view of
 - the financial position (Balance Sheet); and
 - the financial performance (Income and Expenditure account) during the period
- To test whether requisite internal controls are in place, commensurate to the size and volume of operations of the entity

Scope of Work

Although Scope of Work shall basically depend on type of audit and the audit ToRs and is governed by the following:

- ✓ Examination of **books of accounts** and financial records
- ✓ Verification of **assets and liabilities**
- ✓ Assessment of **internal/ accounting controls**
- ✓ Examining **financial Statements** for arithmetical accuracy, ensuring compliance with applicable accounting standards / guidelines and policies / disclosure requirements
- ✓ Preparation of **audit observations and report** for discussions with client / management
- ✓ Follow up on the **compliance** of the **prior audit observations**

However,

- ✓ Primary responsibility of maintaining adequate accounting records lies with the management of the entity
- ✓ Audit involves 'judgment' e.g. in deciding the extent of sample checking in order to arrive at a true and fair view of the financial statements
- ✓ The primary objective is not to detect fraud

Types of Audit

	Statutory	Internal/ Concurrent	CAG
Who does the audit?	A qualified chartered accountant (C&AG empanelled C.A. Firm)	Internal audit team within the organization or an external auditor/consultant	Office of C&AG
Who appoints the auditor?	Management i.e. SHS/ DHS	Management i.e. SHS/ DHS (under NRHM)	Government Arm

Types of Audit (contd.)

	Statutory	Internal/ Concurrent	CAG
Objective	Whether the financial statements represent a “True and Fair” view of the financial position as at end of the financial year	To determine whether the financial management arrangements including internal control mechanisms as developed are working effectively, identify areas of for improvement and enhancing efficiency	To check the propriety of the transactions and ensure value of money (As per the Duties, Powers & Service Conditions Act, 1971)
Scope and Coverage	Auditors’ scope is generally defined by statute including contents of report, etc. However sample size, coverage of units, etc. may be agreed at ToR stage.	Decided by management (Detailed guidelines available under NRHM)	Efficiency cum performance audit

Types of Audit (contd.)

	Statutory	Internal/ Concurrent	CAG
Frequency	Generally, conducted once a year	Ongoing process, normally conducted monthly/quarterly/ six monthly	Once a year (but in practice, often bunched over 2-3 years)
Reporting	Mission Director of the State	To the Management i.e. State / District Health Society	To the parliament
Mandatory or not	Compulsory by law	Voluntary in nature but mandatory in larger organizations. (Mandatory under NRHM, as per GoI instructions)	Compulsory in organizations where accounts are under the control of union or state Govt.

STATUTORY AUDIT

Key Objectives

The primary objective of 'Statutory Audit' is

“to ensure that the financial statements i.e. the Balance Sheet, Income & Expenditure Account and Receipt & Payment Account, give a **true & fair view** and are free from any material misstatements”

Statutory Audit of the financial statements should provide reasonable assurance that the accounts

- ✓ have been prepared in accordance with the Generally Accepted Accounting Principles; &
- ✓ are free of any material misstatements, errors and discrepancies

In context of NRHM, Statutory Audit also aims at ensuring that:

- ✓ The respective program expenditures are eligible for financing under the relevant grant/ credit agreements (under programs supported by development partners)
- ✓ Funds have been utilized for the purposes for which they were provided

Scope of Work & Coverage

As per the *Financial Management Guidelines issued by FMG*,

I. Scope of statutory audit includes:

- ✓ An assessment of adequacy of the project financial systems, including financial controls. This should include aspects such as
 - ✓ adequacy and effectiveness of accounting, financial and operational controls;
 - ✓ level of compliance with established policies, plans and procedures;
 - ✓ reliability of accounting systems, data and financial reports;
 - ✓ methods of remedying weak controls ;
 - ✓ verification of assets and liabilities;
- A specific report on these aspects would be provided by the auditor annually as part of the management letter;
- ✓ Goods and services financed have been procured in accordance with the relevant procurement guidelines issued by the GoI.
- ✓ All necessary supporting documents, records and accounts have been kept in respect of the project.

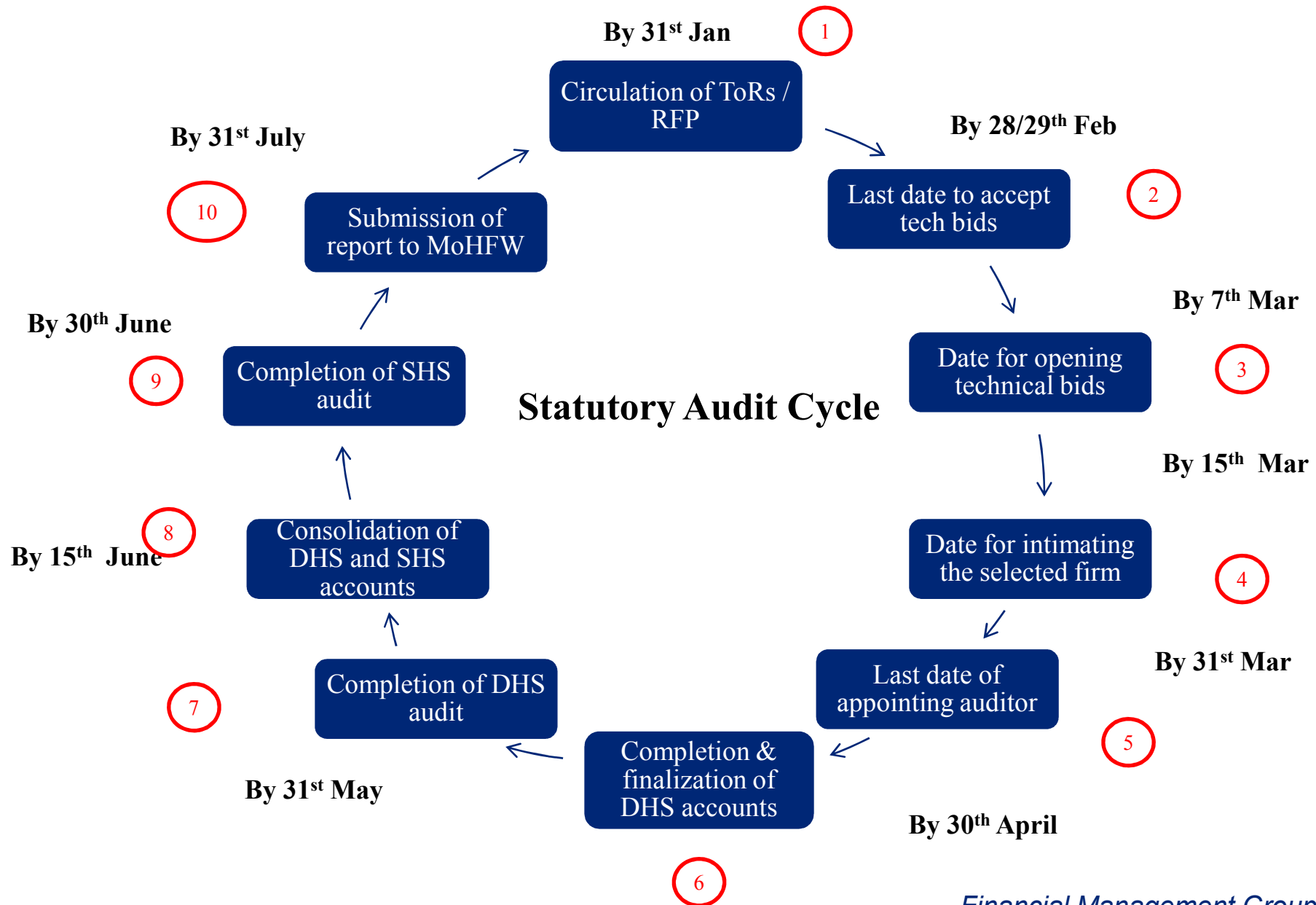
Scope of Work & Coverage

- ✓ For externally funded programmes, auditor must satisfy that all expenditure, including procurement of goods and services have been carried out as per the procurement manual of the individual programmes and guidelines issued by the Programme Divisions of GoI and have all the necessary supporting documentation.
- ✓ Funds have been spent in accordance with the condition laid down by the Department of Health & Family Welfare, Government of India from time to time with due attention to economy and efficiency, and only for the purpose for which the funds was provided
- ✓ Expenditures if any, ineligible for financing by the development partners (as documented in the Development Credit Agreement with IDA and equivalent agreement with DFID) are disclosed adequately in the financial statements

II. Coverage:

- ✓ Audit should cover 100% District Health Societies (DHSs) each being a legally registered society
- ✓ At least 40% of the Block Level CHC/PHC (other than those covered in the previous year) should be covered.
- ✓ The sample shall be selected in a manner that Block level PHC/CHC in each district is included in the sample coverage.
- ✓ Blocks which have been covered for the audit in the previous year may be left for this year.

Overall Audit Cycle- Important Activities and Dates



**SELECTION PROCESS OF
THE AUDITOR**

Selection Process of the Auditor

- 1 Open Advertisement in Leading Newspapers at State and National Level
 - 2 Host the advertisement on the official website of the State Health and Family Welfare Department and Copy to be mailed to ICAI
 - 3 Circulation of ToRs to the interested firms
 - 4 Formation of the Auditor Selection Committee by the SHS Executive committee with representation from programme and finance wings
 - 5 Pre bid conference with interested firms to explain the scope of work
 - 6 Technical Bid Evaluation (as per the format given in the guidelines)
 - 7 Firms with 65% or more score to be shortlisted for financial evaluation and rest to be intimated about rejection
 - 8 Financial Bid Evaluation
 - 9 Final Evaluation as per 70:30 weightage to technical and financial
- Last date of submission of bids not less than 3 weeks and more than 5 weeks from date of publication of Advertisement
- Financial Bid opening date not later than 3 weeks after the technical evaluations

Overall Bid evaluation process

- ✓ The format of the RFP to be circulated to the interested firms is available on the NRHM website <http://mohfw.nic.in/nrhm.htm>
- ✓ The proposal is to be submitted in two parts:
 - A) Technical Proposal**
 - B) Financial Proposal**
- ✓ A two stage evaluation is carried out. Technical evaluation is carried out first. Financial bids of firms clearing the technical evaluation are opened for financial evaluation.
- ✓ The selection will be done using Quality cum Cost Based Selection (QCBS) process. 70% weightage would be given to the Technical evaluation and 30% weightage would be given to the financial bid
- ✓ Firm should submit only one proposal. If more than one proposal is submitted, all such proposals will be disqualified
- ✓ Each page of the technical and financial proposal should be signed by the authorized signatory of firm.
- ✓ On completion of selection process, the firm selected shall be awarded the contract of audit of SHS & DHS by issuing Letter of Award (LOA)
- ✓ Firm should execute a contract with SHS within 2 weeks of the award of the issuance of LOA.

TECHNICAL EVALUATION

Technical Evaluation

✓ Contents of the Technical Proposal

- Letter of Transmittal
- Details of the firm along with Details of Partners
- Details of Qualified Staff & Semi qualified Staff
- Details of Team Composition
- Description of Approach, Methodology and Work Plan for SHS and DHS audit
- Relevant Experience
- Comments and Suggestions on the ToRs

✓ Eligibility Criteria of firms

- Empanelled with C&AG
- Firm or any partners of the firm should not be black listed by any PSU/ Govt or any other organization in respect of any assignment / behavior

Technical Evaluation Contd

- Firms must qualify following **minimum criteria:**

Sl. No.	Particulars*	Minimum Criteria
1.	Number of Full Time Fellow Partners associated with the firm for not less than 3 years (As per Certificate of ICAI as on 1.1.2011) i.e. such partners should continue to be a fellow member during their partnership for all the three years continuously	4
2.	Turnover of the firm (Average annual in last three financial yrs.)	Minimum Rs.25 Lakhs
3.	No. of Years of Firm's Existence as per ICAI Certificate	5 Yrs.
4.	No. of audit assignments of Statutory Audit of Corporate/PSUs entities except Bank Branch Audit having a turnover of not less than Rs 20 Crore for each of the years for which the audit has been done in the last 3 years. Firms having specific experience of the relevant assignment will be given priority.	10
5.	No. of assignments: Experience of audit of Externally Aided Projects/ Social Sector Projects of the State for which the application is being made (other than Audit of Charitable Institutions & NGOs) in the last 3 years	4

Technical Evaluation contd..

- Any firm not qualifying on these minimum criteria need not apply as its proposal shall be summarily rejected.
 - A firm cannot undertake the audit assignments of more than two states in a year. The audit assignment must be opted for as awarded by States chronologically i.e. on First come First served basis.
 - Firms can also bid in Joint Venture or by forming association of few firms. In this case, lead firm should be clearly indicated with details on all other firms. Associate firms are also required to have minimum eligibility criteria of 65 marks as per the RFP.
- ✓ Details to be provided by firms and supporting documents required are appended as *Annexure I*
 - ✓ Technical evaluation will be carried out as per the “ Eligibility Criteria & Technical Evaluation” Section mentioned in the guidelines
 - ✓ Technical proposal scoring at least 65 marks will qualify for financial evaluation

Technical Evaluation Parameters

S. No	Particulars	Min Criteria	Max Marks	Evaluation Criteria
1.	Number of Full Time Fellow Partners associated with the firm for not less than 3 years (As per certificate of ICAI as on 1.1.2011)	4	10	Firms with 4 or more FCA partners = 5 Firms listed as eligible for major audits by C&AG for the year under Audit = 10
2.	Turnover of the firm (Average annual in last three financial yrs.)	Min Rs.25 Lakhs	10	Rs 25 to 50 Lakhs= 5 Above 50 Lakhs = 10
3.	No. of assignments: Experience of Commercial / Statutory Audit in last 3 years Specific experience of the firm relevant to the assignment Experience of audit in relation to Social sector of the state (excluding audit of Charitable Institutions)	10	10	15 plus 4 to 8 in social sector=5 15 plus above 8 in social sector= 10
4.	Adequacy of the proposed methodology and work plan , Technical Approach & Methodology work plan	4	10	As per evaluation of the proposal
5	Key Professional Staff Qualifications & Competence for the assignment		50	IN THE NEXT SLIDE *
	TOTAL MARKS		100	

Technical Evaluation Parameters

***Weightage for Point 5: Key Professional Staff Qualifications & Competence for the assignment**

S.No	Criteria	Maximum Marks
1.	No. of Team (with min 4 members as specified in Form T-4) & Team composition	30
2	Team Leader Qualification and experience of the Team Leader (should be a qualified CA with at least 10 years post qualification audit experience)	15
3	Lead Firm having Head Quarters in the STATE	5
Total Maximum Marks		50

** For NE States, the Lead Firm or Bidding Firm may have headquarters in any North Eastern States/ West Bengal. For UTs, the Lead Firm or Bidding Firm may have headquarters in the adjacent States (sharing boundary with the concerned UT). Firms having proper Head Office / Branch Office in the State for not less than three years as per ICAI Certificate as on 1.1.2011 only will be considered under this category. The State should get verified the existence and its effectiveness in the State for at least last three years with proper evidences.*

Team Composition

- For Team Composition & Number of Teams, the following guidelines are to be considered by a firm;
 - ✓ The team must be headed by a qualified Chartered Accountant with one semi-qualified C.A. (C.A. Inter) and two support staff (Junior Auditor).
 - ✓ More than one team needs to be constituted due to a large number of districts and implementing entities below a district, a minimum sample coverage and time bound completion schedule.
 - ✓ Each team should not have responsibility for audit of more than (6) to (8) districts in a State.
 - ✓ The firm shall give an undertaking that the team members are proficient in the State's official language (both oral and written).
 - ✓ A record of the team should be maintained at the facility visited and a certificate of their attendance giving their name, designation and date of visit etc. from the head of that facility should be collected by the team.

Details of Structure & Composition of Team and Task Assignment

- Each team will constitute of minimum 4 members with qualifications as below:

Name	Position/ Team Number	No's (Mini mum)	Educational Qualification	Key responsibiliti es or Task Assigned	Relevant Experience and period of association with the firm	Name of the firm to which he belongs in case of Associate	Number of Man days estimated for task completion
Chartered Accountant	Team Leader	1					
Semi- Qualified (CA Inter)	Individual District Team Lead	1					
Support Staff (Jr Auditors)	Support to District/ State Team Lead	2					

Team Structure

- Firms should clearly bring out the number of teams it plans to deploy for the audit keeping in view the scope of work, coverage and Guidelines for submitting the proposal.

Structure of each team should be indicated as per format below:

Name of CA	Name of Support Staff	Qualification	Number of Districts (including the blocks as in point 8(f) of Section II of RFP) proposed to be covered.	Time Required for Each assignment

FINANCIAL EVALUATION

Financial Evaluation

- ✓ Financial Proposals of the firms which have not qualified on technical parameters shall be returned unopened after the completion of selection process.
- ✓ The financial evaluation will be done on 70:30 weightage to technical and financial proposal.
- ✓ Audit Fee submitted in the Financial Proposal to be exclusive of TA/ DA and taxes as applicable
(Appended as Annexure II)
- ✓ Financial Proposal submitted by the firm should be valid for 6 months from the date of submission of the proposal by the firm.
- ✓ Taxes, as applicable shall be paid by the SHS separately on submission of final bill by the audit firm.
- ✓ Single audit fee to be quoted in case of Joint Venture/ Associations
- ✓ Travel Cost for visit to DHS and Block level peripheries shall be reimbursed by the SHS on actual bills submitted by the firm
- ✓ Lodging and Boarding facilities shall be provided by the SHS/ DHS.
- ✓ If the audit firm has its HQs/ branch office in the State Capital itself, no lodging, boarding and travel cost shall be payable to the audit firm

AUDIT REPORT

Audit Report Analysis

The SHS finance officials have to ensure that the audit report should include all the required contents before sending it to the ministry and necessary follow up is done on the audit observations. For this, they should follow the following steps:

- A. To check the basic contents of the Audit Report :** A list of basic contents including financial statements, accounting policies etc has been provided later which have to be prepared by the auditor and attached to the report. In case the auditor has missed out on any of these, SFM should intimate him immediately and send the report back to the auditor for rework.
- B. Things to look out for to ensure completion of the report :** The SFM should check for these things before dispatching the report to the Ministry which should include all financial statements and contents in the correct formats. (*Format of the Audit Report appended as Annexure III*)

After the report is sent, the SFM should follow the third step:

- C. Classification of audit observations:** The state personnel need to ensure that adequate action is taken on the important observations and hence should classify and prioritize them to take action

A. To Check the Basic Contents of Audit Report

Following financial statements/ documents should be prepared by the statutory auditor during the course of audit:

- ✓ Consolidated balance sheet of the SHS including RCH, Mission, RI, PPIP, All NDCPs at State & District (*Appended as Annexure IV*)
- ✓ Consolidated Income & Expenditure A/c (*Appended as Annexure V*)
- ✓ Consolidated Receipts & Payments A/c (*Appended as Annexure VI*)
- ✓ Schedules to Balance Sheet as appropriate
- ✓ Accounting policies & Notes to Accounts
- ✓ Scheme wise Utilization Certificates
- ✓ Action Taken Report on last year's audit observations
- ✓ Statement of Reimbursable Expenses
- ✓ Management Letter
- ✓ Reconciliation between audited & FMR figures
- ✓ All significant accounting policies and Notes to Accounts

Key Points- Contents of the Audit Report

- ✓ Audit Report should include audit of all the transactions at the State level as well as all the transactions in the District Health Societies within the State
- ✓ Audit for the financial year will include all the components under NRHM
- ✓ Auditor should specifically mention in the audit report about the coverage of audit on these components and also will ensure that the releases and expenditures are duly separately reflected in each program financial statements.
- ✓ Names of units (CHC/PHC) whose accounts are not reconciled should be mentioned
- ✓ Audit Report should include a separate paragraph commenting on the accuracy and propriety of expenditures included in the financial statements and FMRs
- ✓ It should also comment on whether procurement procedures have been followed and the extent to which GoI can rely on quarterly FMRs
- ✓ If there are two sets of accounts maintained i.e. Tally and manually also, auditor should make it clear whether both the books match or not and on the basis of which accounts has the audit been conducted
- ✓ Reasons and impact (increase/ decrease) on expenditure of current year or previous year on account of adjustments made in the B/S opening balances must be stated

Key Points- Contents of the Audit Report

- ✓ Auditor should provide details/ facts in cases, when providing disclaimer on the financial statements, as to why and how has he formed such opinion along with all facts. This must be discussed with Mission Director in an exit conference.
- ✓ Management should include the following
 - Comments and Recommendations on accounting records, systems and internal controls
 - Specific deficiencies and area of weaknesses in the system and internal controls and give recommendations for improvement
 - Report on level of compliance with the financial internal control
 - Report any procurement which has not been carried out as per the procurement manual / guidelines of the state for the individual programmes
 - Communicate issues that might have impact on the implementation of the project
- ✓ Observations in the management letter must be accompanied by the implications, suggested recommendations from the auditors and management comments on the Observations/ recommendations have to be obtained and reported
- ✓ Audit Report should clearly mention whether district level audit have been done by the same auditor or not
- ✓ Auditor shall have to specify the significant observations, including internal control weaknesses for each program and also specify the institution to which these relates to enable/ facilitate appropriate follow up action

B. Things to look out for ensuring completion of report

1. Audit Opinion (As per the format prescribed in guidelines)
2. Consolidated audit report and individual reports on all programmes
3. Percentage of coverage of districts and blocks by auditor mentioned in report
4. Completed checklist attached
5.
 - ✓ Audit Checklist (*Appended as Annexure VII*)
 - ✓ Management letter checklist (As per the format prescribed in guidelines)
6. Following completed Financial Statements in the latest approved format
 - ✓ Audited Balance Sheet
 - ✓ Income and Expenditure
 - ✓ Receipts & Payment
7. Statement of Reimbursable Expenses (*Appended as Annexure VIII*)

B. Things to look out for ensuring completion of report (Contd..)

8. Following other relevant schedules/ documents in the latest approved formats

- ✓ Unspent grants of individual programmes
- ✓ Capital Fund
- ✓ Current Liabilities
- ✓ Fixed Assets
- ✓ Loans and Advances (age wise analysis)
- ✓ Cash and Bank Balances
- ✓ Program wise Statement of Expenditure
- ✓ Bank Reconciliation Statement
- ✓ Scheme wise Certified Utilization Certificates
- ✓ Audited FMRs

9. Reconciliation between expenditure as per FMR and audit report

10. Notes to Accounts attached

11. Accounting Policies attached

12. Comment on compliance with previous year's audit observations

13. Representation by Management

14. Management Letter (*Appended as Annexure IX*)

C. Classification of Audit Observations

Audit observations provide key insights into the internal control systems at the society but not all of them may be material.

Categorization can be done based on following parameters




Seriousness of Observations

- ✓ Those which are most material observation and require immediate action
- ✓ Those which need to be flagged & followed up
- ✓ Those which may be ignored



EMPHASIS SHOULD ALSO BE LAID ON OBSERVATIONS WHICH HIGHLIGHT SYSTEMIC WEAKNESSES AND INVOLVE HUGE AMOUNTS

Classification of Observations- Example

Audit Observations	Rating	Indicative/ Possible Impacts
Bank balances were subject to confirmation as bank reconciliation had not been carried out till the time of audit.		This is a critical, systemic internal control lapse- dangerous if different between balance as per bank statement and books is large.
No record of cash transactions were being maintained at the SHS, however payments in cash were being made. The cheques were issued in the name of the staff / officer who would withdraw the amount and spend the same.		Advance withdrawn and spent in cash unless properly substantiated could lead to possibilities of misuse of unaccounted funds
Training session was organized and paid for 25 people, however, only 20 attended		Not a very material observation

RESPONSIBILITIES

Responsibilities of the State Personnel

State Finance Personnel

- ✓ Hold an entry conference with the main auditor and audit teams to brief them about NRHM, its various interventions which need to be audited and the requirements of an audit report
- ✓ Monitor the audit progress by incorporating information on the form to record progress of the audit (*Appended as Annexure X*). A copy of the report should be forwarded to the Joint Secretary in MoHFW, GoI on a fortnightly basis.
- ✓ Collection of all working papers, hard/soft copies from the auditors as well as all the Audit reports of Districts and the State for all the programmes. SFM/ SAM may issue a confirmation to the auditors of receipt of all draft audit observations and working papers at completion of the audit
- ✓ For submission, the SHS should forward 3 copies (spiral bound) and soft copy (in MS excel/ MS Word) of the audit report and audited financial statements to the GoI along with final UCs signed by both State and Auditor. Scanned copies should also be submitted through mail or CD.
- ✓ Ensure the books of accounts are complete before the start of the audit
- ✓ To give access to any information relevant for the purpose of conducting audit i.e. financial statements, vouchers etc
- ✓ Coordinate with units under its jurisdiction for field visits and ensure completion of books of accounts before the audit

Responsibilities of the District Personnel

District Finance Personnel

- ✓ In order to ensure that the teams as proposed in the proposal have visited the districts, a “Certificate of Audit Teams visited” (*Appended as Annexure XI*) should be filled in by the audit team and duly certified by the facility in charge regarding personnel deputed.
- ✓ Ensure the books of accounts are complete before the start of the audit
- ✓ To give access to any information relevant for the purpose of conducting audit i.e. financial statements, vouchers etc
- ✓ Coordinate with units under District’s jurisdiction for field visits and ensure completion of books of accounts before the audit

Responsibilities of the Auditor

- ✓ Auditor should prepare a Detailed Plan of Audit in consultation with the State officials and provide the same to the Mission Director to be observed by the Auditor and State for timely completion of Audit (*Appended as Annexure XII*)
- ✓ Compare the financial management reports sent to GoI with the annual accounts
- ✓ Get the accounts ready for the SHS
- ✓ Issue separate Audit Report for each District and state level for each programme separately
- ✓ Audit should be completed within 90 days as the terms of contract signed
- ✓ Reports are to be submitted by 31st July
- ✓ Ensure that all funds sent by MoHFW to state and from state to districts etc. are properly reconciled
- ✓ Auditor should quantify the expenditure/ funds against any specific issue
- ✓ Before release of audit fee, auditor has to submit a confirmation from SFM about handing over all the working papers
- ✓ Financial Statements and relevant schedules shall be prepared in accordance with the format provided by Ministry of Health and Family Welfare, GoI

**CASE STUDIES AND
SELF ASSESSMENT**

CASE STUDY 1 – Quality of Checklist filled by Statutory Auditor

Objective: The following exercise will help in assessing the adequacy of the replies given by the auditor in the checklist attached to the report. This will give an insight into the quality of the audit conducted and the performance of the auditor.

Illustrative examples :

S. No	Question	Auditor's Reply	Remarks
1.	What are the checks being exercised while preparing FMRs?	As per the information provided to us the checks implied were: Cash & Bank Balances, advance position, PIP size, actual expenditure, physical verification etc	ADEQUATE
2.	Does the project follow the system of single signatory or joint signatories? Who are the signatories to the bank account (s)?	Joint signatory	INADEQUATE Designation of signatories at state and district level could be mentioned

CASE STUDY 1 – Quality of Checklist filled by Statutory Auditor

Identify Areas where reply given by the auditor is inadequate / inconclusive and give reason for the same.

S. No	Question	Auditor's Reply	Remarks
1.	In the General Ledger, are the ledger accounts (at a minimum) as per the activity heads in the Financial Reporting Formats? If not how are financial reports compiled?	General Ledger is not being prepared at state and district level.	
2.	Are funds transferred by State Health Society to District Societies or directly to Bank accounts in the name of CMHO or DMO?	Yes	
3.	What is the average frequency of fund transfer in a year?	The funds transferred to peripheries is as per the budget availability.	

CASE STUDY 1 – Quality of Checklist filled by Statutory Auditor

Identify Areas where reply given by the auditor is inadequate / inconclusive and give reason for the same.

S. No	Question	Auditor's Reply	Remarks
4.	What is the basis of recording expenditure at State and District level i.e. is it based on actual expenditure reported by Districts/ sub district units or are transfers recorded as expenditures?	UCs were the backbone of booking expenditures at State level, District level & Block level. Hence most of the expenditures were booked on the basis of UCs. As per the explanations given no transfers except transfers relating to VHSC and untied funds were recorded as expenditures	
5.	How many bank accounts are being maintained and are Bank reconciliations carried out on a monthly basis?	At state level: 2 bank accounts of RCH, NRHM and Immunization.	

CASE STUDY 1 – Quality of Checklist filled by Statutory Auditor

Identify Areas where reply given by the auditor is inadequate / inconclusive and give reason for the same.




S. No	Question	Auditor's Reply	Remarks
6.	Has the auditor(s) been appointed for State and District Societies for the year 2006-07? If yes, what was the process of selection of auditors? Were they from the shortlist circulated by FMG?	Yes auditors had been appointed through open tender system.	
7.	Has a single audit firm been appointed or have districts been divided amongst firms? Is there a concept of lead auditor to quality assure the audit?	Yes single firm appointed for all districts. Lead auditor has also been appointed.	
8.	What are the fee rates, the coverage and the time period for which auditors have been contracted?	Fee rates are as prescribed by state. Few blocks are also visited during the audit.	

Answer

Question	Auditor's Reply	Remarks
In the General Ledger, are the ledger accounts (at a minimum) as per the activity heads in the Financial Reporting Formats? If not how are financial reports compiled?	General Ledger is not being prepared at state and district level	Inadequate Since the auditor has commented that general ledger is not maintained by the state & district so he should have provided information on how financial reports are compiled.
Are funds transferred by State Health Society to District Societies or directly to Bank accounts in the same of CMHO or DMO?	Yes	Inadequate Response of the auditor does not provide information as to which bank account the money is transferred (CMO or DHS)
What is the average frequency of fund transfer in a year?	The funds transferred to peripheries is as per the budget availability	Inadequate Some indication on the frequency of fund transfer under different pools could have been provided.
What is the basis of recording expenditure at State and District level i.e. is it based on actual expenditure reported by Districts/ sub district units or are transfers recorded as expenditures?	UCs were the backbone of booking expenditures at State level, District level & Block level. Hence most of the expenditures were booked on the basis of UCs. As per the explanations given no transfers except transfers relating to VHSC and untied funds were recorded as expenditures	Adequate
How many bank accounts are being maintained and are Bank reconciliations carried out on a monthly basis?	At state level: 2 bank accounts of RCH, NRHM and Immunization.	Inadequate No. of bank accounts is not clear. No reply on the monthly preparation of BRS is provided
Has the auditor(s) been appointed for State and District Societies for the year 2006-07. If yes/no, what was the process of selection of auditors? Were they from the shortlist circulated by FMG?	Yes auditors had been appointed through open tender system.	Inadequate No reply regarding the shortlist circulated by FMG is provided
Has a single audit firm been appointed or have districts been divided amongst firms? Is there a concept of lead auditor to quality assure the audit?	Yes single firm appointed for all districts. Lead auditor has also been appointed.	Contradictory answers
What are the fee rates, the coverage and the time period for which auditors have been contracted?	Fee rates are as prescribed by state. Few blocks are also visited during the audit.	INADEQUATE Auditor needs to quantify the fee being given. Also "few" doesn't explain the coverage. The auditor should have mentioned the number of blocks/ implementing units visited along with the frequency of visit during the year. No response has been provided on the time period of auditors contract.

CASE STUDY 2: Classification of Audit Observations

Objective: To learn to prioritize the audit observations for the purpose of follow up.

Please rate the audit observations as    and explain the possible impact of the observations not being followed up:

S. No	Audit Observations	Rating	Indicative/ Possible Impacts/Remarks
1.	On the verification of FMRs prepared at districts, it was observed that cheques reversed and refunds received from CHCs/ PHCs have been shown in income account instead of reducing from the relevant advance/ expenditure head as the case may be.		
2.	RTGS transfer from the SHS amounting to RS 2 lakhs could not be traced and hence is pending settlement.		
3.	Confirmation of balances have not been obtained from agencies against whom advances are lying in the books of the SHS.		

CASE STUDY 2: Classification of Audit Observations

S. No	Audit Observations	Rating	Indicative/ Possible Impacts/Remarks
4.	Stale Cheques (issued) not reversed		
5.	No records for purchases of equipments, drugs, etc made by hospitals / CHCs were made available for audit.		
6.	Funds sanctioned for the purpose of tele-medicine have been utilized to purchase computers and no supporting documents for reallocation were made available.		
7.	Out of the 4 tenders received and accepted for purchase of computers, 1 tender did not have a sales tax registration document		

CASE STUDY 2: Classification of Audit Observations

S. No	Audit Observations	Rating	Indicative/ Possible Impacts/Remarks
8.	Programme management expenses have exceeded the limit of 6 % as prescribed by GoI.		
9.	Expenditure on hoardings amounting to Rs 21 lakhs were made from the SHS, but no supporting document except the bills of the supplier were made available to the auditor.		
10.	There was a case of unauthorized purchase of laptop amounting to Rs 80000.		

Answer

S. No	Observations	Category	Indicative/ Possible Impact/ Remarks
1	On the verification of FMRs prepared at districts, it was observed that cheques reversed and refunds received from CHCs/ PHCs have been shown in income account instead of reducing from the relevant advance/ expenditure head as the case may be.	Y	Basically an incorrect accounting treatment, can be rectified
2	RTGS tranfer from the SHS amounting to RS 2 lakhs could not be traced and hence is pending settlement.	R	This is critical as it has direct impact on fund availability. Immediately action needs to be taken to trace the same and settle. Banker needs to be approached
3	Confirmation of balances have not been obtained from agencies against whom advances are lying in the books of the SHS.	R	It may be due to lack of system to obtain external confirmations on outstanding balances. However it may have serious impact in case of any irregular advances given.
4	Stale Cheques (issued) not reversed	Y	Basically, accounting entry is pending, not a very serious mistake. However will impact the bank and debtor's balances. System should be instituted for passing reversal entries on a timely basis
5	No records for purchases of equipments, drugs, etc made by hospitals / CHCs were made available for audit.	R	Lack of adequate maintenance of records may lead to misappropriation of funds / misutilization of drugs and equipments etc. Clarification needs to be sought on quantum of procurement - may be disallowed by DPs
6	Funds sanctioned for the purpose of tele-medicine have been utilized to purchase computers and no supporting documents for reallocation were made available.	Y	Unauthorized Expenditure. Needs to be regularized.
7	Out of the 4 tenders received and accepted for purchase of computers, 1 tender did not have a sales tax registration document	R/Y	In case the contract has been awarded to a registered supplier, it might not lead to serious implications in this case. However, as a practice, tender should not be accepted from a non registered supplier.
8	Programme management expenses have exceeded the limit of 6 % as prescribed by GoI.	R/Y	Violation of guidelines- appropriate action needs to be taken considering the extent of violation
9	Expenditure on hoardings amounting to Rs 21 lakhs were made from the SHS, but no supporting document except the bills of the supplier were made available to the auditor.	Y	Authorirization of expenditure and complaince with procedures in procurement of supplier, need to be checked while deciding authenticity of the payment. Additonal supporting documents can be requested like photographs of hoardings etc.

Self Assessment

Please tick mark (✓) the correct answers. A question can have more than one correct answer.

1. Objective of Audit includes which of the following:
 - a. To assess and provide an opinion on whether the Financial Statements present “True and Fair” value
 - b. To assess whether the requisite internal controls are in place
 - c. Both a and b

2. Is the CAG audit mandatory to be conducted?
 - a. Yes
 - b. No
 - c. Compulsory for organizations where accounts are under the control of union or state Govt.

3. By when should the statutory auditor be appointed?
 - a. 31st March of the year for which the audit is to be conducted
 - b. 30th April of the next year
 - c. 15th March of the year for which the audit is to be conducted

Self Assessment

4. Statutory Auditor has to perform which of the following activities:
 - a. Furnish an FMR of the last quarter along with audited financial statements
 - b. Certify the Utilization Certificates
 - c. Conduct physical visits to districts and blocks
 - d. All of the above

5. By when should the statutory audit reports be submitted to the MoHFW?
 - a. 30th April of the next year
 - b. 15th July of the next year
 - c. 31st July of the next year
 - d. None of the above

6. The minimum qualifying marks for technical evaluation of statutory audit are:
 - a. 60%
 - b. 65%
 - c. 70%
 - d. None of the above

Self Assessment

7. The audit fee quoted in the financial proposal should be inclusive of TA/ DA and taxes as applicable.
- a. True
 - b. False
8. Which of the following are parts of the technical proposal?
- a. Details of Team Components
 - b. Comments and Suggestions on the ToR
 - c. Details of the firm structure
 - d. All of the above

Answers: 1 (c), 2 (c), 3 (a), 4 (d), 5 (c), 6 (b), 7 (b), 8 (d)

ANNEXURES

Annexure I– Particulars/ Details of a firm in Technical Proposal

Annexure I- Particulars/Details of the Firm

Sl. No.	PARTICULARS	Supporting Documents required to be submitted along with this Form
1	Name of the Firm	
2	Addresses of the Firm:	
	Head Office	Phone No: Fax No: Mobile of Head Office In-charge:
	Date of establishment of the firm	
	Date since when is H.O. at the existing Station	
	Branch Office 1,2,3..... (Particulars of each branch to be given)	Phone No: Fax No: Mobile of each Branch Office In-charge:
	Mention the date of each branch offices since when existed at the existing place	
3	Firm Income Tax PAN No.	Attach copy of PAN card
4	Firm service Tax Registration No.	Attach copy of Registration

5	Firm's Registration No. with ICAI	
6	Empanelment No. with C & A G	Attach proof of latest empanelment with C&AG for the year under Audit.
7	No. of Years of Firm Existence & Date of establishment of Firm	Attach copy of Partnership Deed
8	Turnover of the Firm in last three years	Attach balance sheet and P&L Account of the last three years or a C.A. Certificate give Break-up of Audit Fee and Other Fees Received.
9	Annual Average Turnover with Break-up of Fee towards Audit, Income Tax matters and others (Specify)	Provide a Chart
10	Audit Experience of the Firm: 1. Number of Assignments in Commercial/Statutory Audit 2. Number of Assignments in State' Social Sector Audits (Other than audit of Charitable Institutions) 3. Experience in the relevant assignment.	Copy of the Offer Letter & the Fee Charged. Copy of the Offer Letter & the Fee Charged (Relevant evidences to be given of the turnover and fee)
11	Details of Partners: Provide following details: <ul style="list-style-type: none"> • Number of Full Time Fellow Partners associated with the firm. • Name of each partner, • Date of becoming ACA and FCA • Date of joining the firm, • Membership No., • Qualification • Experience • Whether the partners is engaged full time or part time with the firm. • Their Contact Mobile No., email and full Address 	Attested copy of Certificate of ICAI as on 1.1.2011.
12	If applying in Joint venture, then provide similar details for the firms participating in Joint venture.	Letter jointly signed by all the firms participating in Joint venture whereby they have agreed for the Lead Auditor.
13	Indicate the Lead Auditor in the Joint Venture.	Letter jointly signed by all the firms participating in Joint venture whereby they have agreed for the Lead Auditor.

Annexure II– Format of Financial Bid

Annexure II- Format for Financial Bid (Please provide the break-up of Firm's quoted fees for each work and unit)

Item or Activity	Total Amount (in Rupees)
AUDIT FEE (Exclusive of TA/DA, Service Tax and cess on Service tax) Note: Percentage of funds involved shall not be a basis of quoting the Audit Fee.	Both in Numeric and in Words. Rs. _____/- (Rupees _____).

Breakup of the Audit Fee quoted above must be provided as per following format:*

S. NO.	Particulars	Total Man days	Amount (Rs.)
1	Audit of individual District Health Societies including sample of sub district level implementing units (covering all programs) Give a break-up for each district		
2	Audit of State Headquarter of SHS and other state level implementing units		
3	Audit of Consolidated Financial Statements of State and District Health Societies.		
4	Others, if any		
	TOTAL		

Annexure III– Format of Audit Report

To,

The Mission Director,

..... State Health Society,

.....

Introduction

We have audited the accompanying expenditure statements / financial statements of the RCH Program Phase-II **(World Bank Cr. No. 4227-IN)** , Routine Immunisation, Pulse Polio Immunisation and Additionalities under NRHM including all the National Disease Control Programmes i.e. RNTCP-I financed under World Bank **Credit No. 4228-IN** , Leprosy, Blindness, IDD, IDSP and NDVCP (World Bank Cr. No. No. 2964-IN) implemented through theState Health Society, as of 31st March, 200.... Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with standards on auditing 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. In forming our opinion we have relied upon the audit findings / observations in(nos.) District Health Society/State Health Society's financial statements, which have been audited by other auditors. We believe that our audit provides a reasonable basis for our opinion.

Opinion

- a. The statements of account dealing with this report includes funds received from **World Bank under Reproductive and Child Health Program Phase – II (Cr. No. No. 4227-IN) and RNTCP-II (Cr. No. 4228-IN)**.
- b. We have obtained all the informations and explanations which to the best of our knowledge and belief were necessary for the purpose of our examination.
- c. In our opinion, proper books of account have been kept by the State Health Society, so far as appears from our examination of the books.
- d. The statements of account dealt with this report are in agreement with the books of account.
- e. Financial Statements of the State is the consolidated Financial Statements of the State and District Societies.
- f. In our opinion and to the best of our information and according to the explanations given to us the said consolidated accounts of the State and District Societies, gives the information in the manner so required and give a true and fair view:-
 1. In the case of the balance sheet, of the State of affairs of the Society as at 31st March,.....
 2. In the case of the Income and Expenditure Account of the excess of income over expenditure / deficit of income over expenditure for the year ended on that date.
 3. In case of Receipts and Payments Account of the receipts and payments during the year ended on that date.

- a. In addition with respect to FMR/SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred;
- b. The expenditures so claimed are eligible for financing under the Credit Agreement; and
- c. Procurement of goods and services has been carried out as per the Procurement manual by Central TB Division and other concerned division of the Govt. of India.

Place:

Date:

Signature of Auditor (s)

Notes :-

1. In case, a qualified opinion or disclaimer is given by the auditor, the audit report should state in a clear and informative manner all the reasons for such an opinion.
2. Audit Report to be accompanied by:
 - a) Management Letter
 - b) Reconciliation of Expenditure as per FMR/SOEs claims with the actual expenditure as reported in the audited financial statements.
3. Matters which have been underlined needs proper attention of the auditor.

Annexure IV– Format of Balance Sheet

Previous Yr. At 31-03-XX	Liabilities			Current Yr. At 31-03-XX	Previous Yr. At 31-03-XX	Assets			Current Yr. At 31-03-XX
	Reserve & Surplus								
	Opening Balance (Surplus)	Figure A of Sch.	IX		Figure A of Sch.	Fixed Assets		II-A	Figure D of Sch.
	Add/Less :Surplus/Deficit for the year	Figure B of Sch.	IX	Total					
						Loan & Advances			
					Figure A of Sch.	Advances-RCH-I		IV-A	Figure E of Sch.
	Unspent Grant				Figure A of Sch.	Advances-RCH Flexipool		IV-B	Figure E of Sch.
Figure A of Sch.	RCH-I	Figure E of Sch.	I-A		Figure A of Sch.	Advances-RI Strengthening		IV-B	Figure E of Sch.
Figure A of Sch.	RCH Flexipool	Figure E of Sch.	I-B		Figure A of Sch.	Advances-PPI		IV-B	Figure E of Sch.
Figure A of Sch.	NRHM Additionalites	Figure E of Sch.	I-C		Figure A of Sch.	Advances-NRHM Additionalites		IV-C	Figure E of Sch.
Figure A of Sch.	RI Strengthening Project	Figure E of Sch.	I-D		Figure A of Sch.	Advances-EC SIP		IV-D	Figure E of Sch.
Figure A of Sch.	Pulse Polio (PPI)	Figure E of Sch.	I-D		Figure A of Sch.	Advances-TB Progamme		IV-D	Figure E of Sch.
Figure A of Sch.	EC SIP	Figure E of Sch.	I-E		Figure A of Sch.	Advances-Malaria		IV-D	Figure E of Sch.
Figure A of Sch.	TB Programme (As per CTB Division)	Figure E of Sch.	I-F		Figure A of Sch.	Advances-Iodine Deficiency		IV-D	Figure E of Sch.
Figure A of Sch.	Malaria	Figure E of Sch.	I-G		Figure A of Sch.	Advances-Blindness		IV-E	Figure E of Sch.
Figure A of Sch.	Iodine Deficiency	Figure E of Sch.	I-H		Figure A of Sch.	Advances-IDSP		IV-E	Figure E of Sch.
Figure A of Sch.	Blindness Control	Figure E of Sch.	I-I		Figure A of Sch.	Advances-Leprosy		IV-E	Figure E of Sch.
Figure A of Sch.	IDSP	Figure E of Sch.	I-J		Figure A of Sch.	Advances-Staff		IV-F	Figure E of Sch.
Figure A of Sch.	Leprosy	Figure E of Sch.	I-K		Figure A of Sch.	Advances-Others (Please specify)		IV-G..	Figure E of Sch.
Figure A of Sch.	Others (Please specify)	Figure E of Sch.	I-L...	Total	Figure A of Sch.	OTHER CURRENT ASSETS		V	Figure D of Sch.
Figure A of Sch.	Fixed Assets Reserves Fund A/C		II	Figure D of Sch.					
						Closing Balances :			
Figure A of Sch.	Current Liabilities		III	Figure D of Sch.	Figure A of Sch.	Cash in Hand		VI	Figure C of Sch.
					Figure B of Sch.	Bank Balance		VI	Figure D of Sch.
						Cheques/Draft in Hand		VII	Figure A of Sch.
0	Total			0	0	Total			0
Place :									
Date :									
Chartered Accountants			State Finance Officer			Mission Director			

Annexure V– Format of Income & Expenditure Account

STATE HEALTH SOCIETY							
Income & Expenditure For The Year Ending 31-03-20XX							
<i>Amount in Rupees</i>							
Previous Yr. At 31-03-XX	Expenditure	Sch. Ref.	Current Yr. At 31-03-XX	Previous Yr. At 31-03-XX	Income	Sch. Ref.	Current Yr. At 31-03-XX
	RCH-I	I-A	Figure C of Sch.		Grant Received		
	RCH Flexipool	I-B	Figure C of Sch.		RCH-I	I-A	Figure C of Sch.
	NRHM Additionalites	I-C	Figure C of Sch.		RCH Flexipool	I-B	Figure C of Sch.
	RI Strengthening Project	I-D	Figure C of Sch.		NRHM Additionalites	I-C	Figure C of Sch.
	Pulse Polio (PPI)	I-D	Figure C of Sch.		RI Strengthening Project	I-D	Figure C of Sch.
	EC SIP	I-E	Figure C of Sch.		Pulse Polio (PPI)	I-D	Figure C of Sch.
	TB Programme	I-F	Figure C of Sch.		EC SIP	I-E	Figure C of Sch.
	Malaria	I-G	Figure C of Sch.		TB Programme	I-F	Figure C of Sch.
	Iodine Deficiency	I-H	Figure C of Sch.		Malaria	I-G	Figure C of Sch.
	Blindness Control	I-I	Figure C of Sch.		Iodine Deficiency	I-H	Figure C of Sch.
	IDSP	I-J	Figure C of Sch.		Blindness Control	I-I	Figure C of Sch.
	Leprosy	I-K	Figure C of Sch.		IDSP	I-J	Figure C of Sch.
	Others (Please specify)	I-L...	Figure C of Sch.		Leprosy	I-K	Figure C of Sch.
					Others (Please specify)	I-L...	Figure C of Sch.
	Income Over Expenditure (Surplus)				Interest Earned	VIII	Figure B of Sch.
					Expenditure Over Income (Deficit)		
0	Total		0	0	Total		0

Place :

Date :

Chartered Accountants

State Finance Officer

Mission Director

Annexure VI– Format of Receipts & Payments Account

STATE HEALTH SOCIETY											
Receipts & Payments Account for the Year Ended 31-03-20											
<i>Amount in Rupees</i>											
RECEIPTS											
Opening Balance											
Sl. No.	Name of the district	Cash	Bank	Sub-Total	Grant-in-aid received during the year (including cheque received or to be received from GOI)	Other Grants	State Contribution	Misc. Receipts (includes refund of EMD/SD)	Amount of Advances refunded/adjusted against exp.during the year	Interest	Grand Total
1	2	3	4	5	6	7	8	9	10	11	
State Level:											
District Level:											
1	District A										
2	District B										
3	District C										
4	District D										
	Grand Total										
PAYMENTS											
Closing Balance											
Sl. No.	Name of the district	Funds utilized/expenses during the year (other than fixed assets) as shown in the Income & Expenditure a/c	Purchase of fixed assets	Advances given during the year	Refund of EMD/SD	Grant Refunded to GOI :	Cash	Bank	Cheques/Draft in Hand	Total	
1	2	3	4	5	6	7	8	9	10	11	
State Level:											
District Level:											
1	District A										
2	District B										
3	District C										
4	District D										
	Grand Total										

Annexure VII– Audit Checklist

Sl. No.	PARTICULARS	YES	NO	REMARKS
1.	Whether Audit Opinion is in the prescribed format giving the World Bank Credit No.			
2.	Whether the Annual Financial Statements (AFS) are in the Prescribed format for Balance Sheet, Income & Expenditure Account and Receipt & Payment Account			
3.	Whether the Financial Statement s includes the Bank Reconciliation Statement as on last day of the year.			
4.	Whether Financial Monitoring Report for the last quarter has been certified by the auditors and forms part of Annual Financial Statement s			
5.	Confirm that no advances to Districts/ Blocks/ PHCs/ CHCs and any other Agency are shown as expenditure			
6.	Are there advances outstanding for long? (greater than 6 months)			
7.	Whether the Utilisation Certificate for all the Sanctions/ Activity has been attached.			
8.	Are the Utilisation Certificates are signed by the Mission Director or any other authorised person and by the Auditor			
9.	Whether auditor has certified that the amount of utilisation in the Utilisation Certificate is tallied with the Income & expenditure Account of the relevant period.			
10.	Confirm that the Consolidated Annual Financial Statements includes all the districts annual statements based on the books maintained by them and have been duly audited by the same auditor or any other auditor.			
11.	Whether Management Letter has been prepared by the Auditors?			
12.	Whether Management has offered its comments on the observations of the Auditor in the Management Letter.			
13.	Whether the Annual Financial Statements are consolidated on the basis of audited districts accounts and not on the basis of expenditures reported by the districts.			
14.	Have you ensured that the Annual Financial Statements have been consolidated for all the Programmes i.e. RCH, NRHM, Immunisation, IEC, Training and all National Disease Control Programmes.			
15.	Whether Accounting Policies and Notes on Accounts have been appended to the AFS			
16.	Are you sure that none of expense of any activity has been merged with that of any other activity.			
17.	Are you sure that all the expenses have been properly reflected as per the Heads of Accounts as shown in the FMR for each programme.			
18.	Whether the accounts finalisation instructions issued by each Programme Division has been followed or not.			

Annexure VIII– Statement of Reimbursable Expenditure

Sl. No.	Particulars	Expenditure as per Audit Report	Expenditure as per FMR
A	RCH Flexible Pool		
	COMPONENT		
1	MATERNAL HEALTH		
	(i) Activity - Referral Transport :		
	Sub Total		
2	URBAN RCH		
	State		
	Districts		
	Sub Total		
3	TRIBAL RCH		
	State		
	Districts		
	Sub Total		
4	INFRASTRUCTURE & HUMAN RESOURCES		
	(i) Activity - Contractual Staff & Services		
	State		
	Districts		
	Sub Total		

	(ii) Activity - Minor civil works		
		State	
		Districts	
		Sub Total	
5	TRAINING		
		State	
		Districts	
		Sub Total	
6	PROGRAMME MANAGEMENT		
		State	
		Districts	
		Sub Total	
7	Operating Cost on Routine Immunization & Cold Chain Maintenance		
		Sub Total	
	Eligible NRHM Additional ties Reporting Heads		
	Operating Costs on Training		
	Contractual Staff Salaries		

Signatures

For State Health Society

Signatures

Auditors

Annexure IX– Format of Management Letter

(Format to be incorporated as part of the Audit Report)

Name of the State:

S. No.	Item	Remarks/ Response
1	Accounting and Funds flow a. Are District Units legally registered entities under the Societies Registration Act? b. Status in respect of guidelines issued in December 2006 on financial, accounting, auditing, funds flow & banking arrangements at State & district level. c. Are the books being maintained as suggested in the Finance and Accounts Manual? (please list the books of accounts maintained at the State and District level) d. In the General Ledger, are the ledger accounts (at a minimum) as per the activity heads in the Financial Reporting Formats? If not how are financial reports complied? e. Is there a clear understanding on the on the nature of expenditure to be charged under each account head? f. What is the basis of recording expenditure at State and District level i.e. is it based on actual expenditure reported by Districts/ sub district units or are transfers recorded as expenditures? g. In case transfers are recorded as expenditures, is there a system of monitoring the expenditures reported against the transfers and eliminating inter unit transfers, while submitting consolidated Financial Report of the State to MOHFW? h. Is any computerized accounting system in use and if yes, what are the outputs? i. Are there any delays in receiving funds from the centre to states and states to districts? Has the project or any component been out of funds in the last one year?	

1	<p>Accounting and Funds flow</p> <ol style="list-style-type: none"> a. Are funds transferred by State Health Society to District Societies or directly to Bank accounts in the same of CHMO or DMO? b. Whether the State is transferring the funds to Districts electronically or by physical transfer? c. Whether the fund transfer by State to Districts is being done like RCH flexible pool or does the State carry out activity wise fund transfer to the Districts. d. What is the average frequency of fund transfer in a year? e. To what extent have financial powers been delegated at the state, district and block levels? f. Are they aware of the new draft guidelines circulated by the centre for delegation of administrative /financial powers under NRHM? g. Problems being faced/ outstanding issues on accounting or fund management or banking arrangements 	
2	<p>Internal Control</p> <ol style="list-style-type: none"> a. Are Financial Management Indicators being compiled regularly? Copy of latest indicators may be requested b. How are FM Indicators being used or followed up? c. Has SPMU been carrying out field checks on basic financial controls (appendix 13 A of Manual) d. Is there a system of recording, monitoring and settlement of advances at all levels i.e. State, District and sub districts? e. Is there an ageing of the advance and are there old un-settled advances with staff and others? f. Are further advances provided without settlement of old advances? g. What steps are being taken to settle old advances, if any? h. Does the project follow the system of single signatory or joint signatories? Who are the signatories to the bank account (s)? i. How many Bank accounts are being maintained and are Bank reconciliations carried out on a monthly basis? j. Problems being faced/ outstanding issues on internal controls. k. Report any procurement which has not been carried out as per the procurement manual of the 	

3	<p>Financial Reports:</p> <ul style="list-style-type: none"> a. Are States familiar with the guidelines for preparation of Revised FMR b. Are the reporting heads in the FMR aligned with the AWP and with the ledger accounts in the General Ledger (to check both at the State and District units) c. Are monthly FMRs submitted by the districts to states on a regular basis? Has the state consolidated the monthly FMRs from the districts for the first quarter of the FY? If so, has it been sent to the Centre and when? (a copy of the last financial report sent may be requested) d. Statement of Fund Position: Whether prepared or not? (Verify the figures from the books of accounts for any quarter as a cross-check measure). e. Do the FMRs go to FMG and programme divisions f. What are the checks being exercised while preparing FMRs? g. Is physical progress being captured in time and consistently? h. Problems being faced/ outstanding issues on financial reporting 	
---	--	--

4	<p>Audit:</p> <p><u>External:</u></p> <ol style="list-style-type: none"> a. Is there a TOR for external auditors and is it as per the TOR provided in the FM Manual/ RFP? b. Has the auditor(s) been appointed for State and District Societies for the year 2006-07? c. If yes/no, what was the process of selection of auditors? For 2006-07 were they from the shortlist circulated by FMG? d. Was a tendering processes were followed /will follow to appoint the Auditors? e. Are the bids evaluated for contracting auditors based on technical inputs or are they cost based? f. What are the fee rates, the coverage and the time period for which auditors have been contracted? g. Has a single audit firm been appointed or have districts been divided amongst firms? h. Is there a concept of lead auditor to quality assure the audit? i. Has SPMU received the model audit report sent by FMG? j. Have the audit observations on the audit report for previous FY been shared by the FMG? k. What is the practice for follow up on audit observations? l. Did the auditor visit the districts or districts officials were called at the State along with the records? <p><u>Internal:</u></p> <ol style="list-style-type: none"> m. Does the State have a system of internal/ concurrent audit? n. Does State plan to have internal or concurrent audit on monthly or quarterly basis? o. Are internal audit observations being received regularly and being acted upon? p. Please elaborate on effectiveness and implementation of Concurrent Audit existed in the <ol style="list-style-type: none"> i) State ii) Districts 	
---	--	--

Annexure X- Form to record progress of the audit

Progress of Audit for the year 2009-10

1. State Name:
2. Total No. of Districts:
3. Audit Firm :
4. Main Contact Person of the Statutory Audit Firm:
5. Contact Nos. :
6. State Finance Manager/ State Accounts Manager:
(Name & Contact Nos.)
7. Audit Plan: State whether Audit Plan (Format) submitted by the State or Not?
(See Format of Audit Plan)
8. Status of completion of audit:

Sl. No.	Facility to be audited	Date of Start & Completion as per Plan	Actual Date of Start and Completion	Remarks (as reg. status of Consolidation and/NDCPs Audit ect.)
1				
2				
3				
4				

State Finance Manager

Dated:

NOTES:

1. This chart is to be prepared on weekly basis and to be submitted to the Mission Director.
2. A copy of this report is to be submitted to Govt. of India every fortnight after the start of audit. Telefax: 011-2306-2121/ Mail : fmg.mohfw@gmail.com

Annexure XI - Certification of Audit Team Visit

Certification of Audit Team Visit

(To be obtained from each unit audited issued by M.a. Incharge)

1. State:
2. District:
3. Name of Facility Visited:
4. Date of Visit:
5. Details of Team:

Sl. No.	Name of the Person in the Team	Qualification and Designation	No. of Man Days Spent

Place:

Date:

Medical Officer In-charge

Annexure XII– Format of Audit Plan

S.No.	Particulars	Start Date	Completion Date	Remarks
1	Visit to State H.Q.			
2	Visit to all the districts (Covering audit of all programmes and blocks selected):			
	District-1			
	District-2			
	District-3			
	District-4			
3	Consolidation of All programmes of each district			
4	Issuing of Audit Observations for Districts			
5	Issue of final audited statements of districts			
5	Audit of State H.Q.:			
	RCH			
	Mission			
	Immunization			
	NDCPs:			
	RNTCP			
	IDSP			
	NLEP			
	NIDDCP			
	NCPB			
	NVBDCP			
6	Consolidation at State Level			
6	Handing over of all state & district reports working papers			
7	Discussion of Audit Report! Findings			
8	Issue of Audit Report			

Auditors

Financial Management Group, NRHM