

KERALA RURAL WATER SUPPLY AND SANITATION AGENCY
(KRWSA)

TERMS OF REFERENCE (TOR) AUDIT OF ANNUAL ACCOUNTS FOR
THE YEAR 2020-21

BACKGROUND

The Kerala Rural Water Supply and Sanitation Agency (KRWSA), - a society registered under the Travancore Cochin Literary Scientific and Charitable Societies Registration Act 1955, which is coming under the administrative control of the Water Resources Department Government of Kerala . KRWSA is an independent and autonomous incorporated body mainly to manage the implementation of Rural Water Supply and Environmental Sanitation projects including the World Bank assisted Jalanidhi- Projects.

KRWSA has so far implemented the World Bank Aided Jalanidhi- I and Jalanidhi- II, projects till the end of the Financial Year 2019-20. The Jalanidhi – II project was over by December 2019, which was implemented through participatory approach in 115 Grama Panchayath in 10 districts across kerala. Apart from KRWSA, Grama Panchayath, Support Organization, Beneficiary Groups and Kerala Water Authority were the implementing partners of the project.

The Jalanidhi – II was implemented strictly in adherence of Project Implementation Plan (PIP) approved by World Bank and Government of Kerala.

KRWSA is having a Project Management Unit (PMU) at Thiruvananthapuram and the Regional Project Management Units (RPMU) at Idukki, Malappuram and Kannur.

During the year 2020-21, KRWSA was implementing the under noted projects with the help of Grants received from Government of Kerala.

1. Completion of Jalanidhi- II Schemes. (Spill over works of Jalanidhi –II) Implementation was on basis of PIP of Jalanidhi – II – approved by Government of Kerala. Expenditure incurred- Rs 29.68 crore (tentatively)
2. Sustainability Support to Community Managed Water Supply Schemes. (Restoration of partially/fully defunct water Supply Schemes of Jalanidhi Project). Implementation was as per the PIP of Jalanidhi- II.- Expenditure incurred- Rs 15.56 crore (tentatively)
3. Scaling up of Rain Water Harvesting and GWR measures through KRWSA.(Setting up of House Hold RWH – Tank etc) Implementation was as per the Guide line Government of Kerala in state Plan Schemes.- Expenditure incurred- Rs 8.13 crore (tentatively)

4. Jal Jeevan Mission project (Installation of Functional House Hold Tap Connections) by receiving funds from Kerala Water Authority as per the guidelines issued separately.- Expenditure incurred- Rs 0.25 crore (tentatively)

OBJECTIVES OF THE AUDIT

The key objectives of the Audit are to obtain opinion from independent auditors whether

- a) The Balance Sheet of this Agency gives a true and fair view of the financial position of KRWSA at the end of the period under audit examination, and of the sources and applications of project funds for that period.
- b) The funds received from Government and from other Government agencies, if any, were utilized for the purposes for which they were provided.
- c) The procurement has been carried by KRWSA in line with the appropriate guidelines as the case may be
- d) The agency has an adequate internal control system (including its continuing existence and effectiveness) and adheres to the provisions of MOA, Financial Rules and Administrative Rules of KRWSA and PIP of Jalanidhi –II Project.

The Books of Accounts provide the basis of preparation of the Annual Accounts and are established to reflect the financial transactions in respect of the projects as maintained by the project implementing agency at the PMU and the three RPMUs and the GPs. Accounting is carried out with the help of the Financial Management Information System (FMIS) developed, in house, for the purpose

AUDITING STANDARDS

The audit will be carried out in accordance with the Standards of Auditing promulgated by the Institute of Chartered Accountants of India (ICAI). The auditor should accordingly consider materiality when planning and performing the audit to reduce risk to an acceptable level that is consistent with the objectives of the audit. Although the primary responsibility for preventing irregularity and fraud or ensuring that the project funds are used for purposes as required in the legal agreements remains with the Project Management, the auditor should specifically consider the risk of material misstatement in the financial statements resulting from fraud, while planning and performing audit procedures and evaluating and reporting results thereof.

SCOPE AND COVERAGE OF THE AUDIT

The audit will cover all the Project sources and applications of funds and cover the following auditable units for the financial year

- The Project Management Unit (PMU) at Thiruvananthapuram The Three Regional Project Management Units (RPMU) at Idukki, Kannur and Malappuram;
- Audit of expenditure incurred by Kerala Water Authority relating to funds transferred from KRWSA.
- Audit of RWH Cell -(the Accounts related to the implementation of the Popularization of Rain Water Harvesting Scheme, is maintained separately at PMU)
- 10% of each of GPs in respect of Jalanidhi –II Project selected on a random basis.

The auditor is required to exercise such tests of accounting records, internal checks and control and other necessary audit of the accounts as per general principles and standard of audit of the institute of Chartered Accountants of India. In conducting the audit, attention should be given in the following:

- (a) All funds have been used in accordance with the condition of the relevant financial norms and financial regulations with due attention to economy and efficiency, and only for the purpose for which the financing was provided.
 - (b) Auditor should ensure that the fund released from PMU to RPMU and RPMUs to GPs are received and properly accounted by cross verifying the Bank pass Book/Bank Statement of the respective units.
 - (c) All necessary supporting documents, records and accounts have been kept in respect of all transactions entered in the books of accounts. Clear linkages exist between the books of accounts and reports presented to Government of Kerala.
 - (d) Generally accepted accounting principles are followed by all accounting centers in particular recording of Beneficiary contribution.
 - (e) Goods, Works and services financed have been procured in accordance with relevant provisions of the Procurement procedure prescribed for the purpose. Proper documents are maintained and linked to the transactions and retained.
 - (f) Separate Auditors have been appointed to audit the accounts of GP and BG/GPLAC in connection with the implementation of Jalanidhi-II and Sustainability Support Schemes. The external auditor will review the project internal audit /GP audit reports and assess the impact of the observations of the true and fair view of project financial statements and on other aspects on which the auditor is required to provide his opinion. The auditor will review that
- (I) There are adequate systems in place for conduct of audit of BGs and GPs by auditors appointed by KRWSA; the expenditure of the GPs/BGs are accounted for on the basis of the audited expenditure; and the quality of the audit reports and mechanisms in place for follow up of the audit observations are adequate; and

- (ii) Due diligence has been followed in the settlement of accounts in relation to GP/BG Exit (applicable at the close of the scheme).

The auditors would also audit the project expenditure incurred by KWA as reported to PMU.

The auditors would ensure that

- a. Funds provided by PMU have been received by KWA in dedicated project bank accounts and these accounts have been duly reconciled.
- b. Expenditure reported by KWA to PMU have been recorded appropriately in KWA's books/records , are adequately supported by documentary evidence and the related internal controls including approval of expenditure are adequate , and such expenditures have been actually paid for. The auditor would specifically report on these procedures in the Management Letter.

The auditor would also visit sample of GPs/BGs in respect of completing Jalanidhi –II at each of the RPMUs. For this exercise , an optimum size of the sample will be selected based on the professional judgment of the auditor and in consultation with the Director Finance of KRWSA considering the risks involved and as per appropriate auditing standards , which shall not be less than 10% of GPs covering all RPMUs. The Management Letter should specifically include a list of GP/BGs verified, audit observations and recommendations for improvement of systematic weakness (if any).

Reconciliation of all Bank Statements and accounts is regularly carried out on monthly basis. Status of audit compliance of previous audit objections raised, if any

AUDITED PROJECT FINANCIAL STATEMENTS

The Audited Annual Accounts/ Project Financial Statements (PFS) should include:

- (a) A Balance Sheet as at the close of the financial period showing accumulated funds of the project, Bank Balances, other Assets of the Project and Liabilities , if any
- (b) A Receipts and Payments Account for the period under audit.
- (c) Income and Expenditure Account in compliance of Accounting Standard -12 of ICAI
- (d) Accounting Policies and Notes on Account.

KRWSA Management should sign the PFS and provide, to the auditors, 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

AUDIT OPINION

The Annual Audit Report on the PFS will be in the form recommended by the standards on Auditing of the ICAI, including a primary opinion on whether the PFS show a true and fair view. In addition, the auditor will provide opinion on other key objectives specified. Those standards require a clear written expression of opinion on whether the financial statements give a true and fair view. An unqualified opinion will indicate the auditors satisfaction in all material aspects that the financial statements give a true and fair view , they have been prepared using consistently applied generally accepted accounting principles , comply with the relevant project's legal documents and adequate disclosure of all the material matters have been made. When a qualified opinion, adverse opinion or disclaimer of opinion or reservation of opinion on any matter is made due to limitation of scope or disagreement with management etc., the audit report should clearly state the reasons thereof (preferably in a separate paragraph) and , as far as practicable , quantify the effect on the financial position.

The auditor should submit the report to the Governing Council/Governing Body (as applicable) of the Agency well in advance who will take further action to have a copy of the Audit of Accounts and report forwarded to Government of Kerala within six months from the close of the financial Year.

MANAGEMENT LETTER

In addition to the audit report, the auditor will prepare a " Management Letter " and submit it along with the Audit Report .The Management Letter will elaborate the findings of the audit and contain recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination . The Management Letter would specifically include matters such as the following:

- (a) Comments and observations on the accounting records, systems, and internal controls that were examined during the course of audit.
- (b) Specific deficiencies and areas of weakness in systems and internal controls and make recommendations for their improvement.
- (c) Elaboration of the audit qualifications, if any made in the audit report.
- (d) Major observations arising out of the internal audit reports including GP/BG audit reports, and the status of their compliance.
- (e) Adequacy of compliance with previous audit findings/recommendations in the audit Report/Management Letter and status of any issues which remain to be addressed and any issues which recurred.
- (f) Communicate matters that have come to the attention during the audit which might have a significant impact on the implementation of the project and bring to KRWSA attention any other matters that the auditor considers pertinent.

GENERAL

The auditor will be given full access to all documents, correspondence, and any other information relating to the programs and deemed necessary by the auditor. The Director Finance of KRWSA will be the Nodal Officer for audit. The auditor should become familiar with the project, and with the relevant policies and guidelines relating to disbursements, procurement and financial management and reporting and auditing. The auditor would be provided copies of

- (1) Memorandum of Association of KRWSA
- (2) Financial Rules of KRWSA
- (3) PIP of Jalanidhi – II

EXPECTED DURATION OF THE WORK

The period of completion of assignments shall be as follows

The audit for 2020-21 has to be commenced from 25.08.2021

TERMS OF PAYMENT

Payment may be released after completion of work and within 30 days of submission of invoice.

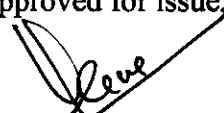
Composition of review committee and review procedure to monitor consultants work:

The review committee shall consist of

- a. Director (Finance and Administration) – Chair person
- b. Deputy Director (Finance)
- c. Deputy Director (Procurement)
- d. Senior Accountant

Sd/-
EXECUTIVE DIRECTOR

Approved for issue,


Director (Fin & Admin) i/c