



Internal Audit

14.1 Internal auditors for SACS shall be appointed by NACO directly by calling for Eols and offers from the Chartered Accountants empanelled with C&AG for PSUs and from the Institute of Public Auditors of India. Internal auditors selected shall not be the external auditors also for any individual SACS (SACS for this purpose shall include DACS/MACS in the same state). A significant portion of the project activities are carried out by NGOs and peripheral units out of funds advanced by the SACS. In order to ensure that such entities are adhering to the agreed procurement and financial controls and are timely in settlement of advances, it is considered necessary to have an internal audit function at the SACS level. Responsibilities of the internal auditor will include reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with financial norms and procedures. Selected CA for internal audit will carry out the audit & submit the report direct to NACO.

Internal Audit constituted by SACS.

14.2 Similarly SACS need to introduce a proper internal audit system and strengthen

internal checks and the in-house internal audit system to ensure proper utilization of funds approved. In States where an in-house internal audit team is not available, qualified Chartered Accountants firm may be engaged (following a competitive process of selection) for carrying out internal audit as per the TOR provided in **Annexure – VII**.

14.3 The internal audit will be carried out on a concurrent quarterly basis and will cover a sample of NGOs and district units/sub district units selected on a percentage basis. It should be conducted so as to cover all districts and peripheral units at least once in 3 years. It should be ensured in the internal audit that the prescribed accounting system including regular bank reconciliation is strictly followed. This will include physical verification of assets, inventories etc. A sample questionnaire also is provided in annexure-VIII.

14.4 In States where there is a large number (more than 25) of NGOs/CBOs, separate auditors/ panel of auditors may be appointed for on-site audit of NGOs. In States where the number of such NGOs/ CBOs is less than 25, the internal auditor of SACS may also cover NGOs.

Table 14.1

Quarter of Audit	Audit of SACS	Audit of peripheral units	Submission of report
June		July 16 to 30	August, 15
Sept	Oct 10-15	Oct 16 to 30	Nov, 15
Dec		Jan 16 to 30	Feb,15
March	April 20-25	April 16 to 30	May,15

14.5 Schedule for internal audit will be as follows:

- Activities in SACS are to be audited on a quarterly basis - all NGOs and a sample of peripheral units (other than NGOs).
- The auditor should make an audit of SOEs and utilization certificates

14.6 Internal auditors should furnish an audit report to the State Project Director with a executive summary of the critical issues/ findings that require attention of the senior management. A copy of the executive summary must be sent to NACO and a copy of the report must also be placed with the Executive Committee of SACS.



**Terms of Reference for an Internal Auditor
for Internal Audit of State AIDS Control Society under the
National AIDS Control Programme Phase-III**

Background

The _____ is a registered Society which is implementing the centrally sponsored National AIDS Control Programme being implemented by National AIDS Control Organisation (NACO) as per the memorandum between the Government of India and State Government.

Objectives

Internal Audit is a control that functions by examining and evaluating the adequacy and effectiveness of other controls throughout the organization. The objective of the current internal audit is to seek a professional opinion on the adequacy of internal control framework and adherence to the internal control procedures provided in various guidelines, manuals etc., identifying areas for improvement and critical weaknesses, if any and that funds received and expenditure incurred for the accounting period are in accordance with the laid down financial regulations, procurement procedures and other orders issued from time to time and that proper accounts are maintained at all levels.

Scope

The scope of work will include a quarterly audit of SACS, all NGOs¹ and a sample of the peripheral units other than NGOs i.e district agencies, VCTCs, blood banks, medical colleges, schools etc.) which receive funds from SACS for implementing project activities. The responsibilities of the internal auditor includes reporting on the adequacy of internal controls, accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with NACP-III financial norms and State Government procedures. While conducting the audit, specific attention should be given to the following:

- (a) The internal audit activities should include payment audit as well as independent appraisals of the financial, operational and control activities of the programme.
- (b) Funds have been used in accordance with 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.



- (c) There is a proper financial and administrative delegation of power and expenditures incurred/ advances provided are properly authorized as per the financial and administrative delegation approved by the Executive Committee. Comment on the adequacy of the delegation.
- (d) Whether there is adequate segregation of duties and controls-?
- (e) Generally accepted accounting principles are followed by all entities who are authorized to incur expenditure under National AIDS Control Programme.
- (f) Goods, works and services financed have been procured in accordance with relevant provisions of the Procurement Manual. The procurement checklist attached to TOR will need to be completed for the contracts verified in the audit.
- (g) Adequate and proper supporting documents, namely, purchase orders, tender documents, invoices, vouchers, receipts, pay bills, TA bills etc. are maintained and linked to the transactions.
- (h) Whether clear linkages exist between the books of accounts and reports presented to the Government of India (by SACS) and to SACS (by the peripheral units)?
- (i) Expenditure incurred under NACP-III is in accordance with the financial norms prescribed in the NACP-III framework or any other clarifications issued from time to time.
- (j) Expenditure is incurred with reference to the budget allocation approved by NACO. In case the budget allocation is exceeded, proper re-appropriation duly approved by the competent authority has been obtained.
- (k) Reconciliation of bank statements and accounts is regularly carried out on a monthly basis.
- (l) System of settlement of advances and whether the peripheral units are timely in the settlement of advances; whether there is a system of adequate review and approval before the settlement and there is evidence of the review.
- (m) Constraints if any in the timely updating of CFMS and in adhering to the internal control procedures.
- (n) Procurement, contracting, disbursement and monitoring of NGOs/CBOs is carried out in line with the NGO/CBO guidelines. Where the internal auditor is also responsible for the on-site audit of NGOs/CBOs, such audit will be carried out as per the TOR provided in the NGO/CBO guidelines.

A checklist (covering FM and procurement issues) is provided along with the TOR as a guidance to the internal auditors. This should be attached and submitted along with the audit report.

Sample & Frequency

The peripheral units (other than NGOs) will be selected in a manner such that each unit is covered at least once in three years. The frequency and prioritization will be carried out by SACS based on

the number of such units, quantum of funds flowing to these units, whether it is a one time or a recurring activity. NGO/ CBO on-site audit will be done once in six months.

Timing for audit and submission of the audit report

Quarter of Audit	Audit of SACS *	Audit of Peripheral Units	Submission of Report
June		July 16 to 30	August 15
Sept	Oct 10-15	Oct 16 to 30	Nov 15
Dec		Jan 16 to 30	Feb 15
March	April 20-25	April 16 to 30	May 15

* activities in SACS are to be audited on a six monthly basis and peripheral units on a quarterly basis.

Outputs required of the Internal Auditor

The internal auditors should furnish a quarterly audit report (along with checklists) to the State Project Director with an executive summary of the critical issues/ finding that require attention of the senior management. A copy of the executive summary must be sent to NACO and a copy of the report must also be placed before the Executive Committee of SACS. The report should be structured in a manner giving observations/-weaknesses, implications, suggestions for improvement and the management comments. Status of actions taken by the management on the recommendations of the previous report should also be provided.

General

Period of appointment:

The auditor would be appointed for a period of two years beginning April 1st 2007 and cover the financial years ending on March 31st 2008 and 2009.

The auditor should be given access to all legal documents entered into with the World Bank and DFID, Project Implementation Plan, books of accounts, NGO/CBO guidelines, procurement manual, financial management manual, scheme books and any other information associated with the programme and deemed necessary by the auditor.

Review

A review committee consisting of Project Director, Head of the financial management group at the State AIDS Control Society will review the internal audit report submitted by the internal auditor and take further remedial measures on the discrepancies pointed out in internal audit.

Checklist Format

S.No.	Activity	Particulars	Y	N	Remarks
1.	Payments and Receipts	<ul style="list-style-type: none"> Are the payments for expenditures in line with the approved annual work plan? Are the payments properly approved in line with the financial delegation? Are the supporting documents filed properly and easily accessible? Is there a serial control over payment, receipt and journal vouchers? Are the expenditures/ payments charged to the correct account code and head of expenditure? Is the system generated voucher used as the basis for approval of payments Comment on a process flow improvements that can be made. 			
2.	NGOs	<ul style="list-style-type: none"> Is there a TSU to support NGO/CBO activities and does it have a finance staff? Has the financial management capacity of the NGO been assessed by the TSU and the process documented during the selection process? Are there any critical FM capacity issues identified during selection process and how are these planned to be addressed? Does the contract with the NGO contain the Financial Management aspects? Are the tranche release to NGOs in compliance with the contractual obligations and in adherence to the NGO/CBO guidelines? Are funds released without settlement of previous advance or without receipt of quarterly financial report? 			

		<ul style="list-style-type: none"> ● Are the NGOs/CBOs timely in submitting financial reports to the SACS/PSU? If not what actions are being taken to address this issue? ● Is the financial review of NGOs by the TSU adequate in terms of quality and frequency? ● Are on-site visits to the NGOs made by the finance staff of the TSU? ● Have annual audited financial statements been received from the NGOs. ● Carry out on site (where covered under the scope of the audit) audit of NGOs/CBOs as per the TOR provided in the NGO/CBO guidelines and attach a separate report of the NGO/CBO covered ● Where this is carried out by independent auditors, comment on the adequacy of the actions taken by SACS to address the observations of the auditors. 			
3.	Peripheral Units	<ul style="list-style-type: none"> ● Has a sanction letter been issued for the proposed activity by the peripheral unit? ● Are the financial management, financial reporting and date of settlement of advance indicated in the sanction letter? ● Is the settlement done on time and supported by a proper utilization certificate? ● Are subsequent tranches released without settlement of the first advance? ● Comment on the quality and adequacy of the financial records maintained by the peripheral units (for the sample covered during the course of quarterly internal audit) - attach a separate sheet where necessary. 			

4.	Overall Monitoring of Advances	<ul style="list-style-type: none"> ● Is the system for monitoring and control of advances adequate? ● Are there a large number of advances overdue ● Is a ageing report generated for review by the project director on a periodic basis. 			
5.	Operation of Bank Account.	<ul style="list-style-type: none"> ● Is the bank reconciliation carried out on a monthly basis? ● Are there any un-reconciled or un-accounted for balances? ● Are payments made by crossed cheque/draft? ● Is there adequate physical controls over cash, receipt book and blank cheque books? 			
6.	Fixed Assets	<ul style="list-style-type: none"> ● Have the procurement procedures prescribed in the Procurement Manual been followed by the SACS for procurement of assets purchased by the SACS? ● Are these supported by adequate and valid supporting documents? ● Are the assets procured documented in the fixed assets register giving its location etc.? ● Carry out a sample verification of fixed assets both in SACS and the peripheral units/ NGOs. ● Are assets received in kind also recorded in the fixed asset register giving the date of receipt, location etc.? ● Has a material been purchased for the project activity? ● Has the purchased material been entered in the stock register? Is it upto date and physical stock in agreement with book balances? 			

7.	Purchase of Goods & Services by SACS	<ul style="list-style-type: none"> ● Have the procurement procedures prescribed in the Procurement Manual been followed by the SACS for procurement of goods & services purchased by the SACS. ● Are these supported by adequate and valid supporting documents? ● Are goods (including drugs) being procured correctly recorded in the inventory register? ● Carry out a sample verification of inventory of consumables, drugs supplied to the NGOs and peripheral units. ● Are goods (ART drugs, test kits etc.) received in kind also recorded in the inventory register? Does the physical balance tally with the book balance? Comment on the variance if any. 			
8.	Accounting	<ul style="list-style-type: none"> ● Is the CFMS operational and upto date? ● Are there any constraints in using the system? ● Are back up processes adequate? ● Have the financial reports for the previous quarter generated from the CFMS been sent to NACO in a timely manner? 			
9.	Other Issues	<ul style="list-style-type: none"> ● Any other issues that the firm may like to address 			

Signature of the CA Firm





Post-Award Checklist for Procurement of Works/Goods

Date of Audit

State/District/Agency

Description of Items procured

Quantity

Procurement Procedure used

Briefly describe the Procedure adopted for inviting the bids

Dates of invitation of bids/tenders/quotes

Dates of receipt of bids/tenders/quotes

Justification in case only one bid was invited (single sourcing/direct contracting)

Details of bids/tenders/quotes Invited and Received

Bids invited from (name of bidder)	Address	Bid submitted or not	Quotes/Bid Price in increasing order

Whether the rates were negotiated?

Whether any price preference was given to any bidder?

Contract awarded to (alongwith reasons for ignoring lower offers, if any):

- Name of the Supplier:
- Quantity
- Contract/PO Value
- Contract/PO Date

Items received on

Payment released on

Items inspected (reason if not available)

Compliance of the agreed procurement procedure
(if no, give reasons)



Annexure VIII



Checklist format for Internal Auditors

S. No.	Activity	Particulars	Y	N	Remarks
1	Payments and receipts	<ul style="list-style-type: none"> Are the payments for expenditures in line with the approved annual work plan Are the payments properly approved in line with the financial delegation Are the supporting documents filed properly and easily accessible Is there a serial control over payment, receipt and journal vouchers Are the expenditures/ payments charged to the correct account code and head of expenditure Is the system generated voucher used as the basis for approval of payments Comment on a process flow improvements that can be made. 			
2	NGOs	<ul style="list-style-type: none"> Has the financial management capacity of the NGO been assessed by the PSU and the process documented during the selection process. Are there any critical FM capacity issues identified during selection process and how are these planned to be addressed. Does the contract with the NGO contain the Financial Management aspects Are the tranche release to NGOs in compliance with the contractual obligations and in adherence to the NGO/CBO guidelines. Are funds released without settlement of previous advance or without receipt of quarterly financial report. Are the NGO/CBO timely in submitting financial reports to the SACS/PSU. If not what actions are being taken to address this issue. 			

		<ul style="list-style-type: none"> ● Is the financial review of NGOs by the PSU adequate in terms of the quality and frequency ● Are on-site visits to the NGOs made by the finance staff of the PSU ● Have annual audited financial statements received from the NGOs. ● Comment on the quality and adequacy of the financial records maintained by the NGOs (for the sample covered during the course of quarterly internal audit)- attach a separate sheet where necessary. 			
3	Peripheral Units	<ul style="list-style-type: none"> ● Has a sanction letter been issued for the proposed activity by the peripheral unit ● Are the financial management, financial reporting and date of settlement of advance indicated in the sanction letter. ● Is the settlement done on time and is supported by a proper utilization certificate ● Are subsequent tranches released without settlement of the first advance ● Comment on the quality and adequacy of the financial records maintained by the peripheral units (for the sample covered during the course of quarterly internal audit)- attach a separate sheet where necessary. 			
4	Overall Monitoring of advances	<ul style="list-style-type: none"> ● Is the system for monitoring and control of advances adequate ● Are there a large number of advances overdue ● Is a ageing report generated for review by the project director on a periodic basis. 			
5	Operation of bank account	<ul style="list-style-type: none"> ● Is the bank reconciliation carried out on a monthly basis ● Are there any un-reconciled or un-accounted for balances ● Are payments made by crossed cheque/ draft. ● Is there adequate physical control over cash, receipt book and blank cheque books 			

6	Fixed Assets	<ul style="list-style-type: none"> ● Have the procurement procedures prescribed in the Procurement Manual followed by the SACS for procurement of assets purchased by the SACS. ● Are these supported by adequate and valid supporting documents ● Are the assets procured documented in the fixed assets register giving its location etc. ● Carry out a sample verification of fixed assets both in SACS and the peripheral units/ NGOs ● Are assets received in kind also recorded in the fixed asset register giving the date of receipt, location etc. ● Is a material been purchased for the activity? ● Has the purchased material been entered in the stock register? Is it upto date and physical stock in agreement with book balances? 			
7	Purchase of Goods & Services by SACS	<ul style="list-style-type: none"> ● Have the procurement procedures prescribed in the Procurement Manual followed by the SACS for procurement of goods & services purchased by the SACS. ● Are these supported by adequate and valid supporting documents ● Where goods including drugs are procured are these correctly recorded in the inventory register. ● Carry out a sample verification of inventory of consumables, drugs supplied to the NGO's peripheral units ● Are goods (ART drugs, test kits etc) received in kind also recorded in the inventory register. Do the physical balance agree with the book balance. Comment on the variance if any. 			
8	Accounting	<ul style="list-style-type: none"> ● Is the CFMS operational and upto date ● Are there any constraints in using the system ● Are back up processes adequate ● Have the financial reports for the previous quarter generated from the CFMS sent to NACO in a timely manner. 			
9	Other Issues	<ul style="list-style-type: none"> ● Any other issues that the firm may like to address 			

Signature of the CA Firm