



External/Statutory Audit

15.1 Statutory Requirement

The State AIDS Control Society registered under the Societies Registration Act 1860 (21 of 1860) is responsible for the maintenance of proper accounts and other relevant records, as well as preparing annual accounts comprising the receipts and payments accounts and statement of assets and liabilities in such a form as may be prescribed by the Registrar of Societies in keeping with the Rules in force under the said Act. Accordingly, it is mandatory that a Chartered Accountant appointed for this purpose should audit the accounts of the Society annually and submit an annual audit report. SACS shall maintain proper accounts and other relevant records and prepare annual accounts comprising the receipts and payments account and statement of assets and liabilities in such form as may be prescribed by the Registrar of Societies of the State Government in keeping with the Rules in force under the Societies Registration Act, 1860 (21 of 1860), subject to the condition that in respect of grants from the Central Government, the directions of the Central Government shall be adhered to.

15.2 Preparation of Financial Statements

Preparation of financial statements is the responsibility of SACS and not of external auditors. The State Project Director shall cause the annual accounts of the Society to be prepared immediately after the close of the financial year,

after approval by the Executive Committee of the Society, and shall have the accounts audited annually by a Chartered Accountant firm appointed with the approval of Executive Committee. The financial statements must be authenticated by the Project Director, Finance Controller and adopted by the Executive Committee before the same is signed together with the audit report by external auditors.

15.3 Selection and Appointment of External Auditors

In order to ensure that the selection of firms with good audit assurance arrangements, the following procedure for appointment of auditors is to be followed:

- a) Each SACS would give an advertisement in the local newspaper calling for EoI for empanelment from among the list of empanelled CA firms during the year 1 of the programme and whenever changed as normally same auditor should not be continued for more than 3 years. Specimen advertisement format and EoI are given in **Annexure IX (a) & (b)**.
- b) A properly constituted three member selection committee including the Chief Finance Officer of the SACS will evaluate the technical and financial proposals received from the CA firms and place its recommendations before the Executive Committee for final selection and approval.

- c) The selected CA firm shall be engaged initially for a period of one year and if the services are found suitable the appointment may be extended further on an annual basis for a maximum period of 3 years. In no case, should a CA firm be entrusted with the external audit responsibility for a period exceeding three years. If not found suitable, a new CA firm shall be selected after following the selection procedure outlined above afresh.

15.4 Scope of Audit

The scope of audit is given in the Terms of Reference (TOR) in the format given in **Annexure -X** indicating (a) programme background, (b) programme objectives, (c) scope of audit, (d) financial statement, (e) statement of expenditure, (f) audit opinion, (g) management letter, h) a statement showing a schedule of fixed assets held by the Society at the end of the financial year, and (i) qualification and experience of the key personnel. Inputs provided shall be

prepared and sent to the prospective Chartered Accountant firm along with the Letter of Invitation.

15.5 External Audit Calendar

The following time table is prescribed for the external audit arrangements in respect of each SACS/MACS and it should be strictly followed (see Table 15.1):

Audited accounts shall be communicated to the Executive Committee of the Society which shall submit a copy of the audit report along with its observations to the Governing Body for adoption. It would be forwarded to NACO (2 copies) for further action.

15.6 Responsibility of NACO

NACO will review the audit reports and identify issues relating to internal control weaknesses, accountability issues on which action is required either by SACS and/or NACO. This will be carried out in line with the specimen audit report review form for NACO as shown in **Annexure-XI**.

Table 15.1

1.	NACO to facilitate advertisement process	During the initiation of programme subject to review
2.	Selection process	Within one month
3.	Date of EC's approval for engagement of external auditors	Between Jan and March of every year.
4.	Appointment of external auditors	By April of every year at the outset.
5.	Completion and submission of Audit Report to NACO after approval by Executive Committee and adoption by GB	By June 30 of the following financial year



15.7 Disclosure of Annual Report along with Audited Financial Statements.

In line with established good practices and in compliance with the *suo moto* disclosure requirements of RTI Act and the outcome budget of the GOI, each SACS will prepare an Annual Report on the performance of the SACS and the activities undertaken during the year together with consolidated Annual Financial Statements (in case of multiple donors). It shall be approved by the Executive Committee and furnished to NACO for civil society disclosure. Such annual report will be made accessible to the public by posting the same on the web site of the SACS and printed if necessary.

15.8 Utilization Certificate

In respect of the grant-in-aid received from the Government of India, the Society shall furnish a utilization certificate duly signed both by the Project Director and the Chartered Accountant to NACO along with the audited annual financial statements. A copy of the format of Utilization Certificate is at Annexure-XII. The Utilization Certificate must be prepared strictly on the basis of the Receipts and Payments account and the opening and closing balances in both Receipts and Payments account and must indicate the advances lying with peripheral units separately.

In addition to the above, a provisional utilization certificate in the same format would be furnished by the SACS to NACO in May every year so as to enable them to release the first installment of the grant for the year.

Note: All grants-in-aid sanctioned and released by the Government of India to a Society in a

financial year shall be indicated by the Society in its Utilization Certificate irrespective of the fact that the amount is received by the Society in the subsequent financial year.

15.9 Pursuance of Audit Objections

In order to keep a watch over the settlement of audit objections included in the audit report, the Accounts Wing/Audit cell of the State Society will maintain a Register in the format given in the **Annexure - XIII** setting apart separate folios for each DDO.

The progress made on the settlement of outstanding audit objections will be reviewed by the PD on a monthly basis and appropriate action taken to ensure their speedy settlement. The Register will also be produced to the auditor for verification of settlement of the objections raised. Audit compliance will be reported to Government of India by the State Implementing Society on a regular basis.

15.10 Audit by the Comptroller and Auditor General of India; Special Audit and Performance Audit

The accounts of the Society are subject to the provisions of Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971 as amended from time to time. The Act also provides for a special audit / performance audit /superimposed audit of Societies by Comptroller and Auditor General of India which would be undertaken as and when necessary. All documents, files, audit reports etc. are to be made available to them and they should be encouraged to make field visits during the course of audit.

Annexure – IX (b)

**Expression of Interest for short listing Chartered Accountant
Firms for the audit of the accounts of State SACS /Dist.
Units/peripheral institutions**

PART_A

Status of the Firm Partnership Sole Proprietorship

1. (a) Name of the firm (in Capital letters) _____
 (b) Address of the Head Office _____
 (Please also give telephone no. _____
 and e-mail address) _____
 (c) PAN No. of the firm _____
2. ICAI Registration No. _____ Region Name _____
 Region Code No. _____
3. Empanelment number with C&AG;-
4. (a) Date of constitution of the firm:
 (b) Date since when the firm has a full time FCA
5. Full-time Partners/Sole Proprietor of the firm as on 1st January, _____

S. No.	Continuous association with the firm	Number of FCA	Number of ACA
(a)	Less than one year		
(b)	1 year or more but less than 5 years		
(c)	5 years or more but less than 10 years		
(d)	10 years or more but less than 15 years		
(e)	15 years or more		

Note: Please attach the copy of Firm's Constitution Certificate issued by ICAI as on 1.1. 200 .

6. Number of Part time Partners if any, as on 1st January, _____
7. Number of Full time Chartered Accountant as on 1st January, _____
8. Number of audit staff employed full-time with the firm
 - (a) Articles/Audit Clerks _____
 - (b) Other Audit Staff (with knowledge of book keeping and accountancy) _____
 - (c) Other Professional Staff (please specify) _____
(list to be attached for Sl. No. 5 to 8)
9. Number of Branches if any (please mention places & locations) _____
10. Whether the firm is engaged in any internal or external audit or providing any other services to any Govt. Company/Corporation or co-operative institution etc. Yes/No
If 'yes', details may be given on a separate sheet.
11. Whether the firm is implementing quality control Policies and procedures designed to ensure that all audit are conducted in accordance with Statements on Standard Auditing Practices. Yes/No
(If yes, a brief note on the procedure adopted is to be enclosed)
12. Are there are any court/arbitration/ legal cases against the firm Yes/No
(If yes, give a brief note of the cases indicating its present status)
13. Fees earned by the firm for the last 5 years

Type of audit	PSU/Autonomous body	Companies in private sector	Banks
Statutory/Branch Audit/ 6-monthly audit review			
Internal/Concurrent Audit			
Total of the above			



PART - B

Undertaking

I/We the sole proprietor/partners of M/S_____ chartered accountants do hereby jointly and severally verify and declare:-

- (i) that the particulars given are complete and correct and that if any of the statements made or the information so furnished in the application form is later found not correct or false or there had been suppression of material information, the firm would not only stand disqualified from the allotment, but would be liable for disciplinary action under the Chartered Accountants Act, 1949 and the regulations framed thereunder;
- (ii) that the firm proprietor or partners have not been debarred or cautioned by ICAI during the last five years (if cautioned give details);
- (iii) that individually we are not engaged in practice otherwise or in any other activity which would be deemed to be a practice under Section 2(2) of the Chartered Accountants Act, 1949;
- (iv) that the constitution of the firm as on 1st January of the relevant year shown in the Expression of Interest is the same as that in the Constitution Certificate issued by the ICAI.

Sl. No.	Name of the Partner/Sole Proprietor	Membership registration number	PAN No.	Dates of payment of fees for the relevant year ___ A/B*	Signature of Partner/sole proprietor

*A for membership

B for issue of Certificate of practice

(seal of the firm)

Place

Date

Encl _____ pages

Signature of Proprietor/Sole Partner

Standard Evaluation Sheet for Evaluation of the Technical Bids of the External Auditors (CA Firms)

	Criteria	Remarks	Max. Marks	Marks Obtained
1.	No. of partners: FCA/ACA		10	
2.	Years of experience: Partner A + Partner B + Partner C + Partner D +		10	
3.	Years of Partners association with the firm: Partner A + Partner B + Partner C + Partner D +		10	
4.	No. of Staff:			
	i. Qualified		10	
	ii. Semi Qualified		5	
	iii. Others		5	
5.	Nature of experience: (giving turnover/project cost/ years of experience of the entities/projects audited)			
	i. Health sector audit		20	
	ii. Govt. social sector		5	
	iii. Other social sector		5	
6.	No. of Branches		10	
7.	Total turnover of the firm in last three years		10	
		Total	100	

- Note: 1. In the Invitation Letter, CA Firms will be asked to give details of all these criteria while applying.
2. CA firms will also provide their latest **Certificate of Firm Constitution** as on 1st January of the current year issued by ICAI and their **latest Income Tax Return** duly acknowledged by IT Department. Firms not able to provide these two documents will not be considered.
3. Each member of the evaluation committee will fill up this form separately.
4. Total marks given by all the members will be totalled and the Audit work will be awarded to the firm obtaining maximum marks.

Name of the Member:

Signature with date:

Annexure – X

**Terms of Reference for Appointment of a Chartered Accountant Firm
for External Audit of Accounts of State AIDS Control Society
under the NACP-Phase III program for the
Year (Financial Audit)**

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.

Programme Objectives

The key programme objectives of NACP-III are prevention of new infections in high risk groups and general population through:

1. Saturation of coverage of high risk groups with targeted interventions (TIs);
2. Scaled up interventions in the general population;
3. Increasing the proportion of people living with HIV/AIDS who receive care, support and treatment;
4. Strengthening the infrastructure, systems and human resources in prevention, care, support and treatment programmes at the district, state and national levels;
5. Strengthening a nation-wide strategic information management system.

Reductions in the rate of HIV spread would be reflected in the stabilization of the annual percentage increase in HIV prevalence. India's strengthened capacity to respond to HIV/AIDS would be measured by the percentage of states & municipalities in which AIDS Control Societies are functioning and effectively managing the targeted intervention component.

Objective of Audit

The objective of the audit of the Financial Statements (Balance Sheet, Income and Expenditure and Receipts and Payments) is to enable the auditor to express a professional opinion on the financial position of the _____ State Aids Control Societies or Municipal Aids Control Societies at the end of each fiscal year and of the funds received and expenditures for the accounting period ended March 31, 20____, as reported by the Financial Statements.

The SACS/MSACS accounts (books of account) will provide the basis for preparation of the Financial Statements and are established to reflect the financial transactions in respect of the project.

Scope

The audit will be carried out in accordance with Audit & Assurance Standards of Auditing issued by the Institute of Chartered Accountants of India and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention should be paid to the following:

- (a) An assessment of the adequacy of the project financial management arrangements, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls, and any needs for revision; level of compliance with established policies, plans and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; verification of assets and liabilities. This would be done in every year of project implementation and specific comments on these aspect would be provided by the auditor annually the Management Letter.
- (b) All funds sent by GOI/ State Society as grant-in-aid have been used in accordance with the conditions laid down in the Project Implementation Plan and World Bank agreements and only for the purposes for which the funds were provided.
- (c) All funds have been used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
- (d) All expenditure, including procurement of goods and services have been carried out as per the procurement manual of the program.
- (e) All the goods procured and issue are supported by valid receipts and issue documents and are recorded in the stock/ inventory registers and the closing balances worked out correctly.
- (f) The expenditures reported as per the quarterly FMR also are in agreement with the audited expenditure / books of accounts and variances are documented.
- (g) Based on the assessment of the adequacy of the internal audit of the peripheral units/ NGOs the auditor should cover a sample of the peripheral/NGOs as part of the audit.

Financial Statements

The financial statements should include:

- (a) A summary of funds received, showing the grant-in-aid from GOI and funds received from other sources, donors, if any separately
- (b) A summary of expenditures shown under the main project activities of expenditures.
- (c) A Balance Sheet showing accumulated funds of the project, bank balances, other assets of the project.



Reconciliation with the Financial Reports

In addition to the audit of Financial Statements, the auditor is required to audit the Interim Financial Reports (IFRs) used as the basis for the disbursement by the World Bank/DFID. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These should be carefully compared for project eligibility with the relevant financing agreements and the Project Implementation Plan for guidance when considered necessary. The following are required to be annexed to the project financial statements:

1. When ineligible expenditure, if any, are identified as having been included in the withdrawal applications, these should be noted separately by the auditor in an annexure.
2. The amount of expenditure reported in the IFR should be reconciled with the amount appearing under the summary of expenditures of the receipts and payments statement.

Audit Opinion

Besides a primary opinion on the financial statements, the audit report of the Society Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures shown in the Statements of expenditure and the extent to which the Donor/Agency can rely on IFRs as the basis for reimbursement.

Time Period for Submission

The audited financial statements including the audit report should be sent as given in Para _____ above.

Management Letter

In addition to the audit reports, the auditor should prepare a "management letter" in which the auditor should:

- a) Give comments and observations, if any, on the accounting records, systems and controls that were examined during the course of the audit.
- b) Identify specific deficiencies and areas of weakness (if any) in systems and internal controls and make recommendations for their improvement including adequacy of control over peripheral units and NGOs; where a sample of peripheral units are covered by the auditor, the observations, if any, on such units should be listed in an annex were.
- c) Comment on the adequacy of segregation of duties in the SACS.
- d) Report on the degree of compliance with the financial/ internal control procedures as documented in the financial manual of the project & NGO/CBO guidelines.

- e) Report any procurement which has not been carried out as per the procurement manual issued by NACO.
- f) Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the society; and
- g) Bring to attention any other matter that the auditor considers pertinent.

The observations in the Management Letter must be accompanied by a suggested recommendation from the auditors and management comments on the observations/ recommendations from the Management.

General

The auditor should be given access to all legal documents, correspondence, financial manual, procurement manual, NGO/CBO guidelines and notices from NACO and any other information associated with the project as deemed necessary by the auditor.

Key Personnel

The key personnel in the audit team, their minimum qualifications, and their anticipated inputs are indicated below:

- (a) The audit team should be led a Chartered Accountant with a minimum of 5 years experience in audit.
- (b) The audit team should include sufficient number of appropriate staff (Articles/Audit Clerks and other audit staff), commensurate with the size and scope of the assignment.

