

**Terms of Reference (TOR) for engagement of Internal Auditor
for Meghalaya Community Led Landscape Management Project (MCLLMP)**

A. Brief Note on the Project

1. The Government of Meghalaya is in receipt of a loan from the International Bank for Reconstruction and Development (IBRD) for a project titled ‘Meghalaya Community-led Landscape Management Project’ (MCLLMP). The project cost is \$60 million inclusive of the loan of \$48 million from World Bank and Government of Meghalaya Share of \$12 million. The Meghalaya Basin Management Agency of the Government of Meghalaya has been notified as the Implementing Agency and the project period is from 2018 – 2023.
2. **The project objective** is to strengthen the community to develop sustainable Natural Resource Management (NRM) system in selected landscapes that will lead to restoration of degraded landscape of the state and build climate resilience.
3. **Project Components:**
 - Component 1: Strengthening knowledge and capacity of communities for NRM.
 - Component 2: Community-led landscape Planning and Implementation.
 - Component 3: Project Management and Governance at the State, District level and Village level.
4. **Project coverage:** The project shall be implemented in 400 very critical and critical (degraded) landscape villages spreading across seven districts, namely, East Khasi Hills, South West Khasi Hills, East Jaintia Hills, Ri Bhoi District, West Garo Hills, East Garo Hills and South Garo Hills.
5. **Project Implementation:** The Meghalaya Basin Management Agency has put in place the State Project Management Unit at the State level and the District Project Management Units at the districts level for implementation of the project in collaboration with other partners, namely, (a) the Village Natural Resources Management Committee (VNRMC) at the Village level in critical landscape villages identified and selected for Community Natural Resources Management(CNRM) intervention and also (b) the Department of Soil and Water Conservation, Water Resource Department, Forest Department, etc., which shall provide technical inputs to communities in preparation of CNRM plans and implementation of the CNRM plans.
6. **Project Implementation Guidelines:** The project is to be implemented in accordance with the Legal Agreement for the Project. Other reference documents are IBRD (World Bank), Procurement regulations, Project Implementation Manual and Community Operations Manual.

B. Internal audit:

1. The Project Implementation guidelines require the need for an Internal Audit to provide the Project Management with periodic reports on the efficacy and efficiency of the financial, Procurement and Contract management system and internal and financial controls, the degree of risk and efficiency of risk management control and governance processes.

- 2. Objectives of internal audit:** It is an independent, objective oriented function to add value and improve organization's operations. It should help the project to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Internal auditor shall-

- a. express an independent professional opinion with regard to efficiency, effectiveness and economy of the project operation;
- b. evaluate the adequacy and effectiveness of the financial, procurement and contract management and internal control system;
- c. ensure compliance of the laid down Project Implementation guidelines and procedures;
- d. provide timely information and recommendation to the Management on improvement of systems.

- 3. Coverage and Standards for the Internal Audit:** The Internal Audit shall cover,

- a. the SPMU at the State level,
- b. the 7 DPMUs in the aforementioned seven districts in the State, and also
- c. the 400 Nos of VNRMCs where CNRM intervention are taken up (for each audit period, 20% of the VNRMC will be selected on a sample basis in consultation with SPMU). The VNRMC will be selected in such a manner that all VNRMCs are covered for the internal audit during the lifetime of the project.

The audit should be carried out in accordance with the Standards on Internal Audit prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the auditors consider necessary for performance of the audit. The specific areas of audit should include the following:

- a. Adequacy and quality of the accounting and financial management records maintained at SPMU and DPMU. The auditor will verify whether adequate supporting documents such as bills, and vouchers and contract records are maintained in respect of project transactions;
- b. Assess the adequacy of internal and financial controls exercised by SPMU and DPMU in processing of transactions;
- c. Assess the level of compliance as laid down in the project implementation guidelines;
- d. Review the efficiency and timeliness of receipt of funds into the project bank account and payment for project activities. The auditor will report delays (if any) on receipt of funds from GoM and payments made by SPMU and DPMU to suppliers, vendors and consultants;
- e. Review the correctness of the financial transactions recorded in the Project Accounting System with underlying accounting records;
- f. Verify whether expenditures accounted under the project are eligible for financing;

- g. Verify whether Interim Financial Report (IFR) submitted to the World Bank is prepared from the financial statements generated from the accounting system and underlying accounting records; verify whether these expenses are classified correctly as per disbursement category of Legal Agreement;
- h. Verify whether clear linkages exist between the accounting records, IFR (submitted to World Bank) and Project Financial Statements;
- i. Assess whether an adequate system is in place to ensure that goods, works and services are being procured in accordance with the procurement arrangements, delegations and procedures prescribed for the project including any capacity building efforts and guidance provided to the District and below in terms procurement procedures/rules which they need to adhere to, oversight mechanism to ensure compliance to rules/procedures for procurement, maintenance of procurement records as per agreed arrangements, process/procedure for addressing and monitoring procurement related complaints, contract administration, monitoring performance, and management including disclosure and timeliness of payments, red flags, etc. The audit of procurement management should be a separate section of the report and shall report by exception any such cases found where these are not followed. Verify whether fixed assets procured under the Project are appropriately recorded in the books of accounts and utilized for the Project purpose only. The auditor will carry out physical verification of sample of assets;
- j. With respect to Funds advanced to VNRMC, the auditor will carry out a detailed review of (a) disbursement records maintained by SPMU and DPMU and report delays (if any) in release of funds to VNRMC, (b) maintenance of accounting records and supporting documents at VNRMC, procurement function carried by VNRMC, validate the expenditures reported in the Utilization Certificates. This task will involve field visits to 20% VNRMC in each audit cycle. The auditor may also be required to provide hands on training to VNRMC staff during the visit on good accounting practices.

4. Data, services and facilities to be provided by SPMU: The Internal audit would be given access to:

- All the project documents such as Project Appraisal Document, copy of Legal Agreements and papers relevant with the audit, including Project Implementation Manual, Community Operation Manual, Government Resolutions, minutes of executive committee meetings, policies and procedures issued by SPMU, etc.;
- Access to all documents, correspondences and any other information relating to the programme and deemed necessary by the auditor;
- A one day briefing meeting will be organized by SPMU for giving details of the programme and the implementation arrangements. It should be attended by all the members of the audit team.

5. Periodicity of internal audit & Audit Reports

- The internal audit shall be conducted **semi-annually** at the SPMU, DPMU VNRMCs level. The Internal auditor shall be required to prepare an audit plan and audit schedule in consultation with SPMU in advance and will commence the audit work after receipt of confirmation from SPMU. The auditor will be required to prepare a **separate audit checklist** (each for SPMU, DPMU and VNRMC) in consultation with SPMU to be used for internal audit and reporting. The Internal auditor should maintain satisfactorily document evidence to support evidence to support their conclusions.
- The auditor will provide separate audit report each for SPMU, DPMU and VNRMC. The comments from SPMU, DPMU and VNRMC must be incorporated in the final report, as Management Comments. The final audit report shall include the following:
 - a. Executive Summary highlighting key audit observations;
 - b. Detailed comments and observations on the financial management records, system and controls that were examined during the course of internal audit;
 - c. Compliance with the provision of legal agreements;
 - d. Deficiencies and areas of weakness in FM system and control environment with recommendation for improvement;
 - e. A separate section on Procurement and Contract Management processes;
 - f. Matters that may have significant impact on the implementation of the project;
 - g. Compliance to the previous audit observations;
 - h. Any other matter that the internal auditor considers pertinent.

6. Team Composition & Qualification: The audit personnel should have familiarity with Government accounting/ financial procedures and local language. The audit team shall also include procurement experts in order to facilitate the procurement/contract review function. The key personnel in the internal audit team, their qualifications are indicated below:

| Sl. No | Key Professionals | Description of Services to be provided | Experience | No. of persons and indicative staff weeks for the assignment |
|--------|--|---|---|--|
| 1 | Audit Partner / (Principal) / Team Leader (CV would be evaluated at RFP stage) | Overall coordination & planning, team leadership, reporting & liaison. S/He shall guide the audit team to ensure timely completion of audit, discuss audit findings with Govt officials and issue audit report. | Qualified Chartered Accountant (One) with at least 8 years of experience as a partner with expertise in audit planning, execution and reporting. Preference will be given to person with knowledge and experience in dealing with Govt / Social sector projects and Donor funded schemes. | 1 No (Minimum 2 weeks in each FY) |
| 2 | Audit Team (CV of CA / | ✓ Review of FM records and | ✓ Qualified CA / Cost Accountant (Two) with | 4 Nos. Minimum 1 week in SPMU, 3 |

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|---|---|--|--|---|
| | Cost Accountant would be evaluated at RFP stage) | <p>transactions of SPMU, DPMU & VNRMC.</p> <p>✓ Assist Procurement expert in review of procurement aspects in VNRMC.</p> <p>✓ Prepare draft audit report</p> | <p>experience in internal audit of at least 4 years and</p> <p>✓ Semi-qualified CA/ Cost Accountant (Two) with experience in internal audit of at least 3 years</p> | <p>weeks for seven DPMUs and 6 weeks to cover VNRMC in each FY and Minimum 2 weeks to prepare audit reports.</p> |
| 3 | Procurement Expert (CV would be evaluated at RFP stage) | <p>✓ Review of Procurement records/ transactions of SPMU and DPMU and VNRMC</p> <p>✓ Prepare procurement section of audit report</p> | <p>Graduate with at least 5 years experience in Government or public sector procurement, well versed with CAG/ CVC guidelines and with World Bank Procurement Regulations.</p> | <p>1 No (Minimum 4 weeks in each FY)</p> |

(The audit programme should be prepared in consultation with the management and the audit team should be led by a qualified Chartered / Cost Accountant (supported by one semi-qualified Chartered / Cost Accountant) as per the approved tour programme. The team would prepare the audit report that will be finalized by the Principal/Audit Partner / Team Leader.)

7. Deliverables and Payment of Audit Fees.

| Financial Year | Period | Audit Coverage | Audit to be completed | Audit report to be shared with SPMU | Payment of audit fees |
|--|--------------------------------------|----------------|-----------------------|-------------------------------------|--|
| Audit Fees for FY2019-20 is 40% of contract value | | | | | |
| 2019-20 | April 01, 2019 to September 30, 2019 | SPMU and DPMU | January 31, 2019 | February 28, 2020 | <p>(i) 7.5% of contract value on submission of audit report</p> <p>(ii) 7.5% of contract value on acceptance of audit report</p> |

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|--|--------------------------------------|--------------------------------|-------------------|-------------------|---|
| 2019-20 | October 01, 2019 to March 31, 2020 | SPMU and DPMU and 20% of VNRMC | May 31, 2020 | June 30, 2020 | (i) 12.5% of contract value on submission of audit report (ii) 12.5% of contract value on acceptance of audit report |
| Audit Fees for FY2020-21 is 60% of contract value (as audit volume will increase substantially) | | | | | |
| 2020-21 | April 01, 2020 to September 30, 2020 | SPMU, DPMU and 20% of VNRMC | November 30, 2020 | December 31, 2020 | (i) 12.5% of contract value on submission of audit report (ii) 12.5% of contract value on acceptance of audit report |
| 2020-21 | October 01, 2020 to March 31, 2021 | SPMU, DPMU and 20% VNRMC | May 31, 2021 | June 30, 2021 | (i) 15% of contract value on submission of audit report (ii) 20% of contract value on acceptance of audit report |

- 8. Consultant's obligation:** The Internal Auditor would be required to mobilize the audit teams and pay for necessary transport and accommodation (to and fro Shillong and field visits to DPMUs and VNRMCs) to conduct the internal audit as prescribed in the ToR. The SPMU will assist the auditor in arranging transport and accommodation, if required by the auditor. The fees quoted for this assignment will include all (i.e. audit consultancy, travel and accommodation).
- 9. Duration of the Contract for Internal audit:** The Meghalaya Basin Management Agency shall enter into contract with Service Providers for internal audit of the project implementation initially for a period of two years to conduct internal audit for the period from April 2019 to March 2021. The contract may be extended further subject to performance and requirement of the project.
- 10. Composition of Review Committee to Monitor Consultants Work:** The consultant will be reporting to the Project/Additional Project Director, however routine transactions/operations or facilitation will be provided by Manager, Finance.