

**Government of India  
Ministry of Labour and Employment**

**FINANCIAL MANAGEMENT MANUAL  
Vocational Training Improvement Project**

**18<sup>th</sup> April 2007**

**Integrated Finance Division  
Ministry of Labour & Employment**

## Chapter – 1

### **Vocational Training Project Phase II: Introduction**

#### Background

1. Globalization and technological advancement have increased the importance of skills and knowledge in production and services, with significant effects on employment. New technologies, including Information & Communications Technologies (ICTs), have allowed enterprises to achieve significant gains in productivity, innovation and delivery which are needed to compete in the current business environment. However, the effective use of these technologies depends largely on the skills that workers possess. The situation tends to favour the employment of more educated workers who can learn and utilize effectively and efficiently these technologies, while it reduces the employment prospects of unskilled and low-skilled workers.
2. The ability of countries to take part in and take advantage of globalization depends in large part on workforce skills. The level of workforce skills is a major determining factor in attracting foreign direct investment, in particular high-value added manufacturing or services. The increased demand for skills is not restricted to higher-level qualifications, but has also focused on the breadth and depth of skills. The broadening of the notion of skills emphasizes non-technical yet important work skills such as problem solving, communication, teamwork and other 'core' skills, including ICT.
3. What is crucially important for skills and training to be effective for growth and employment is that **skills and training strategies and programmes must be an integral part of economic and employment growth strategies and programmes.** Improving the quality of training systems and delivery is crucial: but skills development is not simply a supply-side issue. Promoting enterprises to be more competitive and seek higher value added output will encourage a greater demand for skills, which in turn will encourage enterprises and workers to invest and participate in skills training. In addition, **broad-based access to skills training can contribute to employment generation that is socially inclusive and equitable.**
4. The need for skill upgradation and development in ITIs through vocational training programme has received the attention of the

Government of India for sometime now. The earlier Vocational Training Project (i.e. Phase-I) with World Bank (WB) assistance [project period : 1989 to 1998 (3<sup>rd</sup> year of Eighth Plan to 2<sup>nd</sup> year of Ninth Plan)] covered 28 States/Union Territories (UTs), at a total cost of Rs 534 crore. The WB funding was for an amount of Rs 395.50 crore, while GOI funding was Rs 138.63 crore. About 500 existing/new Industrial Training Institutes (ITIs) were covered under this project. The Ministry of Labour & Employment is at present implementing a Centrally Sponsored Scheme (CSS) "*Upgradation of 100 ITIs into Centres of Excellence*" with domestic resources, wherein expenditure is shared between the Centre and States/UTs in the ratio 75:25. This Scheme involves an outlay of Rs.160 crores [Central share: Rs.121 crore]. The 100 ITIs covered under the Scheme are distributed in 26 States/UTs.

5. The proposed Scheme for upgradation of 400 ITIs with World Bank assistance is based on the on-going CSS with certain modifications relating to the pattern of release of Central share in instalments, ITIs located at places lacking industrial clusters can be selected for upgradation of existing trades, and **procedures for procurement of goods/services that would have to be revised so as to conform to WB approved norms, and for the reimbursement claims to be submitted to the WB to become eligible.**
6. This manual is intended for the use of State and Central implementing authorities as well as the WB personnel for information regarding the Scheme and guidelines for its implementation.

## Chapter – 2

### **Budgeting**

1. Preparation of proper Budget plays an important role in timely implementation of a project or scheme. Budget involves identifying specific tasks / objectives of the project to be achieved in a time frame. Before seeking funds from Government of India, the concerned State/Union Territory must estimate funds required for accomplishment of the project / scheme. It would be **mandatory on the part of the State Government/UT to make sufficient provision in their budget for meeting the expenditure to be incurred under the Scheme. This budget provision would include the Central share as well as the State/UT share.**
2. The project agreement between the borrower and the World Bank usually provides for levy of commitment charges implying that if there is delay in implementation of the project, the borrower has to pay a Commitment Charge on the un-drawn credit amount. **The implementing agency should ensure that effective budgetary exercise is followed leading to proper utilization of the credit and thus avoid payment of commitment charges.** However, States/UT's would share the burden of commitment charges on pro rata basis levied by the World Bank in case of delays in utilisation of funds by States/UT's.
3. Every effort should be made to link the budget with physical targets, i.e. activities to be accomplished in the given time.
4. Any variation in the budget should be analyzed and reasons for adverse variation should be studied and considered for future budgeting.
5. Various Formats required for preparation of budget along with Utilisation Certificate in prescribed form GFR 19-A is at Annex-I .
6. A Budget Calendar / time table may be prepared and approved well in advance by the respective State/UT in the form of Institutional Development Plan (IDP) so that the funds required for implementation of IDP can be included in the State Budget.

## Chapter - 3

### **Flow & Disbursement of Funds and Project Monitoring**

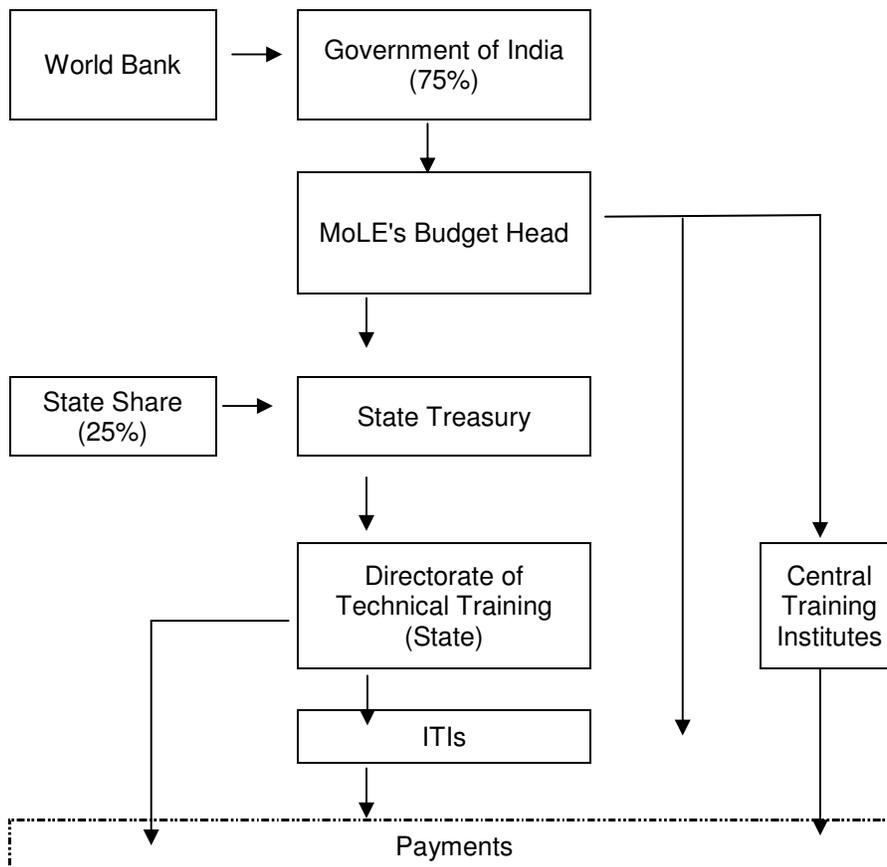
1. Efficient funds flow has a critical role in smooth implementation of a project. Arrangement and placement of adequate funds at the right time and at the right place will result in timely achievement of project objectives.
2. According to the general principles relating to Grants-in-aid to State Governments / UTs laid down in the **General Financial Rules, 2005 [Rule 215 (2)]**, every CSS should be treated as a Project with time bound targets for monitoring, midterm evaluation and detailed impact studies. Apart from making provisions in the budget and releasing funds, Ministries/Departments should establish a mechanism to ensure that the funds earlier released have been effectively utilized and that the data and facts reported by the State Governments or Union Territories relating to physical and financial performance are correct. Before releasing further funds, it should also be ensured that the State Governments/UTs have the capacity to actually spend the balance from the previous years and the releases during the current year. Attention should be focused on the attainment of the objectives and not on expenditure only. A mechanism for avoiding release of large part of funds towards the end of the year should be devised and incorporated in the Scheme design itself. An evaluation mechanism should also be built into the Project, providing for concurrent reviews and applying mid-course corrections where necessary. A post-completion review of every CSS should be undertaken by the State Governments/UTs implementing the Scheme, highlighting the time and cost overruns, if any, and suggestions for formulating and implementing future schemes. This review should be kept in view while formulating new CSSs.
3. According to Rule 239 of the GFRs, 2005 which pertains to the fund flow for Central or Centrally Sponsored Projects, the process of disbursement of such claims by the Funding Agency shall be the same as explained in Rule 237 (i) (a) of the GFRs. [This Rule explains the one of the procedures laid down for withdrawal of funds from the loan or grant account, namely Reimbursement procedure.] The Ministry gets funds when Demands for Grants are passed in the Parliament and advised by the Budget Division of the Ministry of Finance. The funds shall be

released to the State Governments / UTs with reference to expenditure incurred by the implementing agency.

However, it is pertinent to mention here that Principals of ITI's would be delegated with necessary financial & administrative powers as mentioned in Section A of MoU to undertake various activities that are required for speedy project implementation.

4. MoLE would be required to submit quarterly expenditure information to the Bank through Interim Unaudited Financial Reports (IUFs), within 45 days of close of the quarter. These IUFs will have to be prepared by the states and be consolidated by MoLE before onward submission to the Bank. It is clarified that basis for reporting will be expenditure by the implementing entity and not releases (e.g. from GoI to a state or from a state to an ITI). Reporting through the IUFs will have the advantages of (a) regular reporting of expenditure information, thus ensuring timely monitoring (b) regular reimbursement from the Bank, thus ensuring timely receipt of the loan/ credit funds.
5. The external assistance follows the route given below:

#### VTI Project, Funds Flow Arrangements



In case of Central Govt. Institutes covered under the scheme, the funds would be sanctioned / released directly to them from the budget of the Ministry/ DGE&T. the head of the institute would be responsible for utilization of funds and submission of reports as per World Bank norms to NPIU.

a. Project legal agreements normally require the borrower and the project implementing entities to provide to the WB within 6 months after the end of each fiscal year, annual audited financial statements of the project that are acceptable to the Bank. However, Audit would be conducted(as per Terms of reference at Annex-II) by the State AG and Audit Reports received from the States would be forwarded by NPIU to the Bank. In addition, the Bank may require submission of the internal unaudited statements used for project managing and monitoring purposes. **It may be emphasized that any noncompliance with the procedures in the credit agreement would result in suspension of disbursements by the WB and this may affect the Project as a whole, leading to delays in completion of the project, which in turn would necessitate extension of the project period. In case of delay/default by a State Government/Union Territory, it would be appropriate if disbursement of funds to that particular State/UT is suspended.** The payment of Commitment Charges that are normally charged by the World Bank on the un-drawn credit amount, should be avoided.

b. In the on-going CSS for upgradation of 100 ITIs with domestic resources, the Central share of funds for 'Equipment' and 'Civil Works' components, is released to the State Governments/UTs in three installments, while in the case of 'Other Expenditure' component, Central share is released in full, i.e. 100%. The details of release of Central share of funds are tabulated below:

**EQUIPMENT:**

Instalment Number	Instalment (%)	Documents to be submitted by State/UT
<b>1<sup>st</sup></b>	<b>10%</b>	Proposal, List of Equipment and Estimated Cost
<b>2<sup>nd</sup></b>	<b>70%</b>	Copies of supply orders placed with suppliers
<b>3<sup>rd</sup></b>	<b>20%</b>	Utilization Certificate for previous installments and Statement of Actual Expenditure

**CIVIL WORKS:**

Instalment Number	Instalment (%)	Documents to be submitted by State/UT
<b>1<sup>st</sup></b>	<b>25%</b>	Proposal and Estimates of cost from CPWD/ State PWD or any other State agency

<b>2<sup>nd</sup></b>	<b>50%</b>	Utilization Certificate for previous installment and Documentary proof of progress (photographs, etc.)
<b>3<sup>rd</sup></b>	<b>25%</b>	Utilization Certificate for previous installment and Statement of Actual Expenditure

**OTHER EXPENDITURE:**

Installment Number	Installment (%)	Documents to be submitted by State/UT
<b>1<sup>st</sup></b>	<b>100%</b>	Proposal along with details of expenditure incurred (for six-month period)

**In the proposed CSS with World Bank assistance, the funds would be released as follows:**

**1<sup>st</sup> Year:**

The funds required would be released in two installments ( April & October respectively) in a financial year for **Equipment, Civil Works and Other Expenditure components** taken together (for a year) on the basis of Institutional Development Plan (IDP) for ITI submitted by the respective State Government. The total number of ITI's selected during the 1<sup>st</sup> year is 100. The number and size of installments to be released in first year are proposed below:

**EQUIPMENT + CIVIL WORKS + OTHER EXPENDITURE**

Financial Year	Installment Number / Month of release	Installment (%)	Documents to be submitted by State/UT
<b>1</b>	<b>1<sup>st</sup> / April</b>	<b>80%*</b>	Institutional Development Plan (IDP) for 100 ITIs selected for upgradation. * 80 % of Central Share of total funds required under <b>Equipment, Civil Works &amp; Other Expenditure components only.</b>
	<b>2<sup>nd</sup> / October</b>	<b>20%*</b>	* 20% of Central Share of total funds required under <b>Equipment, Civil Works and Other Expenditure components</b> subject to furnishing of reasonable evidence of proper utilization of installment released earlier [Rule 209 (6) of GFR 2005]. Though UC would not be required at this stage,

**2<sup>nd</sup> Year:**

In 2<sup>nd</sup> year, the number and size of installments, however, would remain the same. Another set of 100 ITI's would be selected during the 2<sup>nd</sup> year. The 1<sup>st</sup> installment of 80% for 100 ITI's selected during 2<sup>nd</sup> Year would also be released for **Equipment, Civil Works and Other Expenditure component** taken together (for a year) on the basis of Institutional Development Plan (IDP) for ITI submitted by the respective State Government on the receipt of Utilisation

Certificate in GFR 19-A for the 1<sup>st</sup> installment released during the previous Financial Year.

Similarly 2<sup>nd</sup> installment of 20% would be released on the receipt of Utilisation Certificate in GFR 19-A for the 2<sup>nd</sup> installment released during the previous Financial Year.

Financial Year	Installment Number / Month of release	Installment (%)	Documents to be submitted by State/UT
2	1 <sup>st</sup> / April	80%	Fresh IDP for next batch of 100 ITI's, Utilization Certificate for 1 <sup>st</sup> installment of 80% issued in previous financial year and Statement of Expenditure.
	2 <sup>nd</sup> / October	20%	Utilization Certificate for 2 <sup>nd</sup> installment of 20% released in previous financial year and Statement of Expenditure
3	Similar to 2 <sup>nd</sup> Year		

**Note:**

- (i) The unspent balances available with the State / UT Governments should be taken into account before further releases of funds are made. The amount may be accordingly restricted.
- (ii) The State / UT should furnish documentary proof (details of Staff appointed, raw material procured etc.) under the head Other Expenditure for such items of expenditure while submitting claims for funds.

- c. The State Governments/UTs should submit **Utilization Certificates for the total amount** (both Central and State shares) in respect of the expenditure incurred while submitting proposals for release of subsequent installment of funds. In addition, State Governments/UTs and the Ministry may **conduct inspections to ascertain the progress of implementation of the project. The related reports/photographs** may also be submitted along with the proposals for release of funds. The release of funds should be linked to physical targets achieved in the implementation of the project.
- d. The State Governments/UTs should furnish **comprehensive proposals for all the ITIs as well as all the trades/training modules covered under the Scheme instead of piece-meal proposals.** [This is especially relevant in the case of proposals for funds for 'Equipment' where it has been observed in the on-going CSS for upgradation of 100 ITIs that many States/UTs send their proposals ITI-wise and also separately for Basic and Advanced modules of training.] **In any case, the number of proposals relating to a component of the Scheme at each stage, should be limited**

**to two.** This would facilitate processing of the proposals at all levels apart from reducing the number of fund releases. During preparation of estimates of expenditure, the **figures indicated in the estimates may be suitably rounded off.**

- e. The letters issued by DGE&T, Ministry of Labour & Employment regarding the sanction and release of funds to the States/UTs should include, if possible, an **authorization/direction to the State Government/UT to provide for provision in the budget of the State/UT** in respect of the total expenditure estimated to be incurred under the Scheme during the financial year. **The appropriate 'Reference Number(s) along with dates' relating to the transfer of funds from Pay & Accounts Office, Ministry of Labour & Employment to Reserve Bank of India, Nagpur and subsequently to the State/UT, may also be intimated to the concerned State/UT Directorates so as to enable them to follow up the matter with the authorities at the State/UT Government level.**
- f. Retroactive Financing: The WB will fund cost of upgradation of 100 ITIs on retroactive basis for "eligible expenditures" that will be made in accordance with Bank guidelines on procurement, financial management and safeguards. Total amount of retroactive financing of expenditures will not exceed 20 per cent of total credit/loan. Any expenditure in excess of 20 per cent of total credit/loan will be borne by Government of India/States. Eligible expenditure can be borne up to a maximum of 12 months prior to the WB approval of the project. **The State/UT Directorates should ensure that the WB accepted procedures are followed while incurring expenditure under the project so that the expenditure becomes eligible for reimbursement from the WB.**

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**Government of India  
Ministry of Labour & Employment  
Directorate General of Employment & Training**

Vocational Training Improvement Project

State:

Name of ITI/COE:

Period of report:

**INSTITUTE-WISE BUDGET**

S. No.	Component/ sub-component	Activity to be taken up during the period	Probable date of completion of activity	Estimated expenditure / Funds required	Budget expenditure category	Disbursement category
	TOTAL:					



**Government of India**  
**Ministry of Labour & Employment**  
**Directorate General of Employment & Training**

Vocational Training Project – Phase II

Period of report:

CONSOLIDATED BUDGET (HQRs.)

S. No.	State/ UT/ Institute	Component/ sub-component	Activity to be taken up during the period	Probable date of completion of activity	Estimated expenditure/ Funds required	Budget expenditure category	Disbursement category
	TOTAL:						

**Vocational Training Improvement Project**  
**Quarterly Interim Unaudited Financial Reports**

**Report Format - 1**

Report for the quarter ended on \_\_\_\_\_

(Amount in Rs  
'000)

Particulars	For the Quarter	Cumulative	
		Year till date	Project till date
<b>Sources</b>			
State Government Funds			
Government of India Funds			
<b>Total Sources (A)</b>			
<b>Expenditures by Component</b>			
<b><u>Component 1: Improving Quality of Vocational Training</u></b>			
Strengthening Industrial Training Institutes			
Establishing Centers of Excellence			
Upgrading ITI's			
Strengthening Capacity for Instructor Training			
Establishing 10 Instructor Training Wings			
Training for COE Instructors in 11 Institutions			
Refresher Training for Experienced Instructors in 300 COEs			
Incentive Fund			
<b><u>Component 2: Promoting Systemic Reforms and Innovation</u></b>			
Promoting Reforms			
Innovations Fund			
Strengthening Capacity for Curriculum Development, Teaching- Materials			
Strengthening Apex Hi-Tech Institute			
Strengthening Central Staff Training & Research Institute			
Strengthening the National Instructional Media Institute			
<b><u>Component 3: Project Management, Monitoring &amp; Evaluation</u></b>			

FINANCIAL MANAGEMENT MANUAL

	<b>Project Management</b>			
	<b>National Project Implementation Unit</b>			
	<b>State Project Implementation Units</b>			
	<b>Monitoring and Evaluation</b>			
	<b>Total Expenditures (B)</b>			
	<b>Advances to Suppliers/ Others</b>			
	<b>Advances for Civil Works</b>			
	<b>Advances for Equipment</b>			
	<b>Others Advances</b>			
	<b>Total Advances (C)</b>			
	<b>Less: Recovery/ Adjustment of Advances (D)</b>			
	<b>Net Advances (E = C - D)</b>			
	<b>Total Uses (F = B + E)</b>			

Certified that the above is as per books of accounts of the implementing entities.

\_\_\_\_\_  
Signature

**FORM OF UTILISATION CERTIFICATE**

FOR THE SCHEME .....

Sl. No.	Letter No. and date	Amount
1.	Central Govt share released vide DGET Letter No.----- dated -----	Rs. _____
2.	State Govt. share released vide State Govt. letter No. _____ dated _____	Rs. _____
	<b>TOTAL (1 + 2)</b>	<b>Rs.</b>

Certified that out of Rs.\_\_\_\_\_. **(Central Share to be mentioned)** of Grants-in-Aid released during the FY\_\_\_\_\_ in favour of Govt. of \_\_\_\_\_ under the Ministry/ Department letter No. given in the margin and Rs. \_\_\_\_\_ **(amount in words)** on account of unspent balance of the previous year, a sum of Rs. \_\_\_\_\_ **(amount in words)** has been utilized for the purpose of \_\_\_\_\_ for which it was sanctioned and that the balance of Rs. \_\_\_\_\_ remaining un-utilized at the end of the year has been surrendered to Govt. vide letter No. \_\_\_\_\_ dated \_\_\_\_\_ / will be adjusted towards the grant- in-aid payable during the next year.

It is also certified that the 25% state share as mentioned above has also been contributed from the State Government and utilized along with the Central Share.

Certified that I have satisfied myself that the conditions on which the grant-in-aid was sanctioned, have been duly fulfilled on that, and I have exercised the following Checks to see that the money was actually utilized for the purpose for which it was sanctioned.

**Kinds of Checks exercised:**

1. Procurement procedure followed as per norms.
2. Procurement certificate furnished.
3. Civil Works carried out as per NCVT approved space norms.
4. Civil works carried out by PWD / State approved agencies as per approved estimates and layout drawings.
5. Any other check required as per the guidelines.

**Signature of State Director**  
**Date**

Terms of Reference for  
Audit of Project Financial Statements of  
Vocational Training Improvement Project (VTIP)

Name of State/ Union Territory \_\_\_\_\_

Background

Directorate General of Employment & Training (DGE&T) in the Ministry of Labour & Employment (MoLE) is the nodal agency responsible for conducting vocational training programs to meet the skilled manpower requirement of industry. Because vocational training is a concurrent subject the Central Government is responsible for laying down norms, standards, policies, conducting of trade tests, and award of certificates. Other major responsibilities include research in vocational training, development of instructional materials and affiliation of Industrial Training Institutes (ITI) whereas State Governments / Union Territories are responsible for day to day administration of Employment Exchanges and ITIs. Each State Government has a Directorate dealing with Craftsmen Training Scheme which is responsible for:

- Carrying out the policy laid down by NCVT
- Ensuring examinations are conducted by the State Board of Examinations
- Issuing the National Trade Certificates
- Arranging for inspection of training institutes / centers
- Affiliating training institutes / centers
- Conducting non NCVT courses
- Implementing the provisions of Apprenticeship Act in respect of State Government / Private establishments and providing employment services.

Courses offered through DGE&T are available for school dropouts; ITI graduates, ITI instructors, industrial workers, technicians, junior and middle level executives, supervisors/foremen, women, physically disabled persons, SC/STs, ex-servicemen, retrenched workers, etc. It also conducts training-oriented research & development of instructional media packages for the use of trainees and instructors, etc.

The employment outcomes for graduates from the vocational training system must be improved by making the design and delivery of training more demand responsive. As a consequence, the broad objectives of the Project are to:

- Produce high quality craftsmen from publicly funded ITIs,
- Enhance knowledge and skills of ITI instructors and trainers,
- Promote innovations, and
- Bring about systemic reforms.

The Project will support establishment of Centres of Excellence (COEs) and upgrade the training of conventional trades. For increasing training opportunities for instructors, 10 Instructor Training Wings will be established in selected ITIs in States that do not already have instructor training facilities on the pattern of ATIs/CTIs. The Project will also strengthen centrally-funded resource institutions to improve curriculum development within the system.

Project costs will be shared between the Government of India (GoI) and the States in a ratio of 75:25. The project is centrally-coordinated, covering all State/UTs except Chandigarh. Another 100

ITIs were identified for upgradation commencing in August 2006; these are financed on a retroactive basis using World Bank funding from the project. The remaining 300 ITIs will be selected competitively based on their Institutional Development Plans for joining the project during the period 2007-2010. Instructor Training Wings will be established in selected ITIs only when the upgrading of the institute has been satisfactorily completed.

A National Project Implementation Unit, will be established by the DGE&T by March / April 2007 to start guiding the States and institutions that have already joined the Project from August 2006, and to start providing support to the National Project Director and the National Steering Committee in discharging their functions. State Project Implementation Units will be established in the Project States well before Project effectiveness. Strengthening resource institutions and implementing other aspects of the Project will commence soon after Project effectiveness. Systems will be developed, studies undertaken and specialised training carried out to enhance the overall capability of the Craftsmen Training System.

### **Components**

The following project components are planned:

#### **Component 1: Improving Quality of Vocational Training**

- Strengthening Industrial Training Institutes
  - Establishing Centers of Excellence
  - Upgrading ITI's
- Strengthening Capacity for Instructor Training
  - Establishing 10 Instructor Training Wings
  - Training for COE Instructors in 11 Central Institutions
  - Refresher Training for Experienced Instructors in 20 COEs
- Incentive Fund

#### **Component 2: Promoting Systemic Reforms and Innovation**

- Promoting Reforms
- Innovations Fund
- Strengthening Capacity for Curriculum Development, Teaching- Materials
  - Strengthening Apex Hi-Tech Institute
  - Strengthening Central Staff Training & Research Institute
  - Strengthening the National Instructional Media Institute

#### **Component 3: Project Management, Monitoring & Evaluation**

- Project Management
  - National Project Implementation Unit
  - State Project Implementation Units
- Monitoring and Evaluation

### **Proposed Implementation/ Funds Flow Arrangements**

- The DGE&T will be provided the budget for the Project and will further pass on the funds to the States implementing the project. This will be done through the Reserve Bank of India and funds will be transferred to the State Treasury.
- At the State Level the Directorate dealing with Craftsmen Training Scheme will make a budgetary provision for the entire expenditure including the state share of the project.

- Expenditure under the project will either be made centrally at the Directorate dealing with Craftsmen Training Scheme or at the ITIs in the State. ITI Principals are designated as drawing and disbursal officers and draw funds from the state treasury for payments.
- Each office which makes payments will maintain regular books of account and records as per the state government procedure.

### **Objective**

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the financial position of VTIP at the end of each fiscal year and of the funds received and expenditures for the accounting period ended (Fiscal years starting from April 1, 2007 upto the project closing date), as reported by the PFS, as well as an opinion on the eligibility of the Statement of Expenditures (SOE)/ Financial Monitoring Reports (FMRs) submitted under the project.

The project books of account provide the basis for preparation of the PFS and are established to reflect the financial transaction in respect of the project, as maintained by the project implementation agencies i.e. the Directorate dealing with Craftsmen Training Scheme in the State.

### **Scope**

The audit will be carried out in accordance with International Standards of Auditing and other regulations and standards of audit of the Comptroller and Auditor General 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:

- All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided, Relevant financing agreements are Development Credit/ Loan Agreement, Project Appraisal Document, Borrower's Project Implementation Plan under Loan No. \_\_\_\_\_ (to be allotted by World Bank after approval);
- Counterpart funds have been provided and 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;
- Goods and services financed have been procured in accordance with the relevant financing agreement;
- All necessary supporting documents, records, and accounts have been kept in respect of all project ventures including expenditures reported via SOEs / FMRs. Clear linkages should exist between the books of account and reports presented to the Bank;
- The project accounts have been prepared in accordance with consistently applied Government Accounting Standards in this respect and give a true and fair view of the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.

### **Project Financial Statements**

The Project Financial Statements should include:

- a Summary of Funds received, showing the World Bank and counterpart funds (GoI/ State Funds) separately;
- a Summary of Expenditures shown under the main project components/ activities/ headings and by main categories of expenditures, both for the current fiscal year and accumulated to date; and

- a Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the project, and liabilities, if any.

As an annex to the Project Financial Statements, the auditor should audit a reconciliation statement (prepared by the project) between the amounts shown as "received by the project from the World Bank" and that shown as being disbursed by the Bank. As part of that reconciliation, the mechanism for the disbursement (i.e. Special Accounts, SOEs/ FMRs, or direct reimbursement) should be indicated.

### **Statements of Expenditures/ Financial Monitoring Reports**

In addition to the audit of the PFS, the auditor is required to audit all SOEs/ FMRs used as the basis for the submission of withdrawal applications. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These expenditures should be carefully compared for project eligibility with the relevant financing agreements, and with reference to the Staff Appraisal Report/ Project Appraisal Document for guidance when considered necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. Annexed to the PFS should be a schedule listing individual SOE/ FMR withdrawal applications by specific reference number and amount. The total withdrawals under the SOE/ FMR procedure should be part of the overall reconciliation of Bank disbursements described above.

### **Audit Opinion**

Besides a primary opinion on the PFS, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under SOE procedures and the extent to which the Bank can rely on SOEs/ FMRs as a basis for loan disbursement. The financial statements, including the audit report, should be received by the Bank no later than six months after the end of the accounting period to which the audit refers. The auditor should submit the two copies of the audited accounts and audit reports to the Implementing Agency.

### **Auditor's comments**

In addition to the other areas, the auditor will also comment on :

- observations on the accounting records, systems, and controls that were examined during the course of the audit;
- identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- report on the degree of the compliance of the financial covenants on the financing agreements;
- communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project; and bring to the borrower's attention any other matters that the auditors considers pertinent.

### **General**

The auditor should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the Bank. It is highly desirable that the auditor become familiar with a copy of the Bank's document on Financial Management Practices in World Bank financed Investment Operations which summarizes the Bank's financial reporting and auditing requirements. The auditor should also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor.