

The page features a decorative graphic consisting of three blue circles of varying sizes, each with a lighter blue ring around its center. These circles are arranged in a vertical line, with the largest at the top, a medium one in the middle, and the largest at the bottom right. Two thin blue lines intersect at the top left, forming a large 'V' shape that frames the circles.

Financial Management Manual

**Integrated Coastal Zone
Management**

*Ministry Of Environment and Forest ,
New Delhi*

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Integrated Coastal Zone Management

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LIST OF ACRONYMS

AC	Accounting Centre
AWP	Annual Work Plan cum Budget
BISAG	Bhaskaracharya Institute for Space Applications and Geo-Informatics
COA	Chart of Accounts
CAAA	Controller of Aid, Account and Audit
CAG	Comptroller and Auditor General of India
CP	Commercial Practices
CQ	Selection Based on Consultants Qualification
CDA	Chilka Development Authority
CFC	Chief Finance Controller
DDO	Drawing and Disbursing Officer
DoFE	Department of Forests & Environment
DEA	Department of Economic Affairs
EE	Executive Engineer
FMM	Financial Management Manual
FMS	Financial Management System
FMTSC	Financial Management Training Support Consultancy
GOI	Government of India
GPCB	Gujarat Pollution Control Board
GDP	Gross Domestic Product
HOD	Head of Department
IEC	Information, Education and Communication
JE	Junior Engineer
IUFR	Internal Unaudited Financial Reports
ICZM	Integrated coastal Zone Management
JMC	Jamnagar Municipal Corporation
M&E	Monitoring and Evaluation
MIS	Management Information System
MoA	Memorandum of Association
MoU	Memorandum of Understanding
MoEF	Ministry of Environment & Forests
MoF	Ministry of Finance

NGO	Non-Government Organization
NPMU	National Project Monitoring Unit
OSDMA	Orissa State Disaster Management Authority
OWP	Overall Work Plan
PDO	Project Development Objective
PEA	Pilot Investment Executing Agency
PFM	Project Financial Management
PIP	Project Implementation Plan
RBI	Reserve Bank of India
SC	Steering Committee
SPMU	State Project Monitoring Unit
TOR	Terms of Reference
ZSI	Zoological Survey of India

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

1.1.1 The Project **Financial Management Manual (FMM)** lays down the Financial Management Systems (FMS) to be followed by the all the implementing agencies viz. NPMU, SPMU and Pilot Investment Executing Agency (PEA) of the Integrated Coastal Zone Management Project (ICZM).

1.2 PROJECT BACKGROUND

1.2.1 The World Bank is providing assistance for Integrated Coastal Zone Management (ICZM) project , which is being implemented by the Government of India (GoI) and the State Governments of Gujarat, Orissa and West Bengal.

1.2.2 India has a coastline of about 7,500 km of which the mainland accounts for 5,400 km, Lakshadweep coasts extend to 132 km and Andaman & Nicobar Islands have a coastline of about 1,900 km (Prof. M. S. Swaminathan Committee Report, 2005). Coastal environment of India plays a vital role in nation's economy by virtue of the resources, productive habitats and rich biodiversity. The coastline is endowed with a wide range of coastal ecosystems like mangroves, coral reefs, sea grasses, salt marshes, sand dunes, estuaries, lagoons and natural habitats etc. Significant activities in the coastal areas include fishing, ports & harbors, aquaculture,

agriculture, tourism, oil and mineral exploitation etc. The coastal activities contribute significantly to the National GDP.

The coastal areas provide for significant economic developmental activities on one hand but it also is an area where the natural hazards are encountered. The various anthropogenic activities coupled with natural calamities leads to environmental degradation such as coastline erosion/accretion, floods, salt water intrusion, ground water depletion, pollution, loss of rich biodiversity, alteration of habitat etc as consequences of the various coastal activities. Further, the people living along the coastal areas are prone to natural hazards such as cyclone, storm surges, tides, tsunami etc., in coastal areas.

To meet the economic aspiration of the local communities living in the coastal stretches and also the developmental aspects of the developing country like India there is a need to manage the coastal resources in a sustainable manner. One of the approaches for managing the coastal resources and promote development in a sustainable manner is through ICZM which is practiced World-wide. The ICZM approach is based on scientific principles taking into account the socio-economic issues of the coastal areas. The coastal areas are assuming greater importance in recent years, owing to increasing human population, urbanization and accelerated developmental activities.

1.3 PROJECT COMPONENTS

1.3.1 Component 1: ICZM Capacity and Knowledge Building

1. Mapping, delineation and demarcation of hazard lines along the mainland coast of India.
2. Mapping, delineation and demarcation of ecologically sensitive areas along the mainland coast of India.
3. Mapping and delineation of coastal sediment cells and sub-cells.
4. Establishment and operationalization of a new NCSCM.
5. Strengthening the capacity of the MOEF staff through the carrying out of a series of capacity building and training programs on integrated coastal zone management.
6. Provision of technical advisory services and logistical support for the management and operation of the NPMU, including, inter alia: (a) the establishment of adequate financial and procurement management systems; (b) the implementation of communication plans, RTI related activities, and governance and accountability actions; (c) the carrying out of monitoring, evaluation and third party audits; (d) the coordination with Project States and other stakeholders; and (e) the carrying out of relevant studies.

1.3.2 Component 2: Piloting ICZM approaches in Gujarat

1. Preparation of an ICZM Plan for the Gulf of Kachchh in Gujarat.
2. Carrying out of a series of capacity-building activities for the benefit of the GDFE, the Gujarat Ecology Commission, the Gujarat State Pollution Control Board, the Gujarat Ecological Education and Research Foundation, the

Bhaskaracharya Institute of Space Applications and Geo-Informatics, and any other relevant agencies, as may be agreed with the Association.

3. Carrying out of Pilot Investments, including related capacity support activities, in the gulf of Kachchh, in the areas, inter alia, of: (a) conservation and protection of the coastal resources, including coral reef regeneration, mangrove and shelterbelt plantation, and the establishment of a marine research and conservation information center at Dwarka, through a private-public-partnership model; (b) environment and pollution management, including sewerage system in Jamnagar City; (c) livelihood security of coastal communities, including livelihood improvement activities in non-forest villages, and ecotourism and related livelihood improvement activities in villages within and outside the protected areas.

4. Provision of technical advisory services and logistical support for the management and operation of the Gujarat SPMU, including (a) the establishment of adequate financial and procurement management systems, (b) the implementation of communication plans, RTI related activities, and the governance and accountability actions; (c) the carrying out of monitoring, evaluation, quality assurance studies, and third party audits; (d) the coordination with PEAs, relevant State agencies and other stakeholders; and (e) the carrying out of relevant studies.

1.3.3 **Component 3: Piloting ICZM approaches in Orissa** will include

1. Preparation of an ICZM Plan for the coastal stretches of Paradip-Dhamra and Gopalpur-Chilika.

2. Carrying out of a series of capacity-building activities for the benefit of the ODFE, the Orissa State Pollution Control Board, the Chilika Development Authority, and any other relevant agencies, as may be agreed with the Association.

3. Carrying out of Pilot Investments, including related capacity support activities, in the two reaches of Gopalpur-Chilika and Paradip-Dhamra, in the areas, inter alia, of: (a) conservation and protection of coastal resources, including protection of olive ridley turtle and other aquatic wildlife, mangrove plantation, conservation of archaeological heritage, and a shoreline protection work at village Pentha; (b) environment and pollution management, including solid waste management in Paradip town; (c) livelihood security of the coastal communities, including livelihood improvement support to about 60 fishing villages in the periphery of the Chilika lagoon and the Gahirmatha Wildlife Sanctuary to develop allied farming activities and to support the fishing communities in developing small-scale tourism, industrial and marketing activities; and (d) construction of cyclone shelters in 14 selected coastal villages.

4. Provision of technical advisory services and logistical support for the management and operation of the Orissa SPMU, including: (a) the establishment of adequate financial and procurement management systems; (b) the implementation of communication plans, RTI related activities, and governance and accountability actions; (c) the carrying out of monitoring, evaluation, quality assurance studies, and third party audits; (d) the coordination meetings with PEAs, relevant State agencies and other stakeholders; and (e) the carrying out of relevant studies.

1.3.4 **Component 4: Piloting ICZM approaches in West Bengal** will include

1. Preparation of an ICZM Plan for the West Bengal coasts covering the stretches of Sundarban, Haldia, and Digha-Shankarpur.

2. Carrying out of a series of capacity-building activities for the benefit of the WBED, the Calcutta University, the Institute of Environmental Studies and Wetland Management, and any other relevant agencies, as may be agreed with the Association.

3. Carrying out of Pilot Investments, including related capacity support activities, in Digha-Shankarpur and Sagar Island, in the areas, inter alia, of: (a) conservation and protection of coastal resources, including mangrove plantation, rehabilitation of the marine aquarium at Digha, and shoreline protection works at Digha beach and Sagar Island; (b) environment and pollution management, including the sewerage and solid waste management works at Digha, including the cleaning and improvement of its fish auction centre, and distribution of grid electricity in Sagar Island; (c) livelihood security of the coastal communities, including improvement in fishery-based and afforestation-based livelihood systems, and support to coordinated livelihood improvement and market access, promotion of local small-scale tourism and ecotourism activities; and (d) construction of cyclone shelters in selected coastal villages.

4. Provision of technical advisory services and logistical support for the management and operation of the West Bengal SPMU, including: (a) the establishment of adequate financial and procurement management systems; (b) implementation of communication plans, RTI related activities, and governance and accountability actions; (c) the carrying out of monitoring, evaluation, quality assurance studies, and third party audits; (d) the coordination with PEAs, relevant State agencies and other stakeholders; and (e) the carrying out of relevant studies.

1.4 OBJECTIVES OF FINANCIAL MANAGEMENT MANUAL

The Financial Management Manual (FMM) has been designed with a view to meet the requirements/expectations of the Project. The main objectives of FMM shall primarily be:

- To achieve better Project Management by providing timely information on financial aspects and on key performance indicators to the Program management
- To meet the financial reporting requirements of various stakeholders
- To keep track of funds utilization for each PEA.
- To provide reasonable assurance that the resources/funds are being used effectively and efficiently for their intended purpose.
- To ensure that all project related activities are reflected in the Project Financial Statements and the same be closely aligned with the Project components as per the Overall Work Program.
- To improve creditability and control over data integrity through effective internal control arrangement.
- To enhance transparency and promote accountability at the PEA level.

To achieve this objective, the manual provides for the accounting policies to be followed by the PEA. It also provides for a detailed chart of accounts for the PEA which would assist in monitoring of Expenses with those given in the OWP.

1.5 COVERAGE OF THE MANUAL

This manual covers the following aspects of the project:

- Fund Flow process
- Planning and budgeting system
- Financial and accounting policies
- Accounting system including internal controls
- Financial Reporting
- Auditing arrangements

1.6 ADMINISTRATION OF THE MANUAL

This Manual shall be administered in the manner given below:

- The Manual is a living document and may be amended by the Secretary, Ministry of Environment and Forest (MoEF) subject to prior concurrence of the World Bank. All participants in the Project are encouraged to share their learning and experiences of the project implementation so as to improve the proposed arrangements made to attain the project objectives.
- All amendments made to the Manual shall –
 - Be circulated to all the SPMU/PEA by NPMU. The circular/notification shall clearly state the paragraph(s) and line(s) to be replaced. All such circulars/notifications shall be serially numbered.
 - Mention the date from which the change shall be effective
 - Be annexed to the manual with a cross reference at the appropriate places in the manual

This manual shall apply to all the Project Executing Agencies of the project.

CHAPTER 2: INSTITUTIONAL ARRANGEMENT


2.1 PROJECT INSTITUTIONAL STRUCTURE

- 2.1.1 GoI's MoEF will have the lead responsibility for project implementation and ensuring that the project development objectives are met. The Departments of Forests & Environment (DoFE) of each of the three participating states will be the key partners of MoEF in project implementation. Each of these four main partners have set up special purpose vehicles in the form of registered societies (National and State level PMUs), to exclusively lead and coordinate project activities on a full time basis and directly implement sub components of the project. The main division of responsibility amongst these four partners and the National and State level PMUs would be as below.
- 2.1.2 The project's institutions will mainly operate at three levels
- (a) National Level : MoEF with NPMU
 - (b) State Level : DoFE with SPMUs in each of the three states, and
 - (c) Pilot Investments in 3 States: A range of government departments/ specialized agencies i.e. pilot investment executing agencies (PEA)
- 2.1.3 The MoEF and the state DoFEs have the sole mandate for coastal zone management respectively at the national and state levels. They have the expertise, experience and demonstrated capacity in coastal zone management and have been the obvious choice to lead project implementation. Similarly the pilot investment executing agencies (PEA) have been selected by MOEF and the State DOFEs in view of their singular expertise in implementing respective coastal zone conservation and development interventions.
- 2.1.4 The proposed institutional arrangements, roles and responsibilities of various actors and their organizational linkages will be as follows :-
- 2.1.5 At the **National Level: MOEF** headed by the Secretary will be primarily responsible for implementing the project. It has Society for Coastal Management (SICOM) at NPMU to exclusively manage the project and is also in the process of establishing an Governing Council/Steering Committee to facilitate speedy implementation of the project. The SC will be headed by the Additional Secretary, MoEF and the Project Director of the NPMU will be its Member Secretary. The other members of the Steering Committee will include representatives of select National and State level departments, agencies and experts in the CZM. SC's main functions would be: providing policy and implementation framework, approval of AAPs and budgets, approval to high cost consultancy and works awards and provide an oversight on the project's implementation performance and outcomes. SC will also seek guidance and support of the NCZMA (National Coastal Zone Management Authority) from time to time as needed.

Table 3: Institutional Responsibilities for Implementation of the Project

Responsible Institution	Main Function
MoEF, GoI	Providing National Policy and implementation framework, Approval of Annual Plans and budget, and Implementation oversight
NPMU under MoEF, GoI	Project Implementation leadership and accountability to achieving PDOs, Implementation of the National Component
DoFE in each of the three States- Gujarat, Orissa and West Bengal	Providing State Policy and implementation framework, Approval of state level Annual Plans and budget, and Implementation oversight
SPMUs under the respective DoFEs of Gujarat, Orissa and West Bengal	State Level Project Implementation leadership and accountability to achieving PDOs, Implementation of the State level components

- 2.1.6 National Project Management Unit (NPMU): NPMU has set up a Society for Coastal Management (SICOM) under the MoEF with an exclusive mandate for providing countrywide leadership, collaboration and management of the ICZM project. NPMU will be responsible for ensuring that the PDOs are fully achieved in a timely manner. Its main functions will be: overall project planning and management, directly implementing the national component, providing guidance, support and approvals as needed to the three SPMUs including monitoring performance of the State components, management of project funds including timely release of advance project funds to the States and seeking reimbursements from the Bank. Its functions will also include: capacity building of all Project partners, managing country wide IEC campaigns and stakeholder participation, ensuring appropriate procurement practices and high quality of engineering designs and construction, ensuring compliance with the project's safeguard policies, implementing enhanced Governance and Accountability Action Plan, and regular monitoring and evaluation of project performance. It will be responsible for liaising with the World Bank and for sending quarterly progress reports to SC of the MOEF and the Bank. It will also be responsible for regular review of strategies and implementation arrangements in the context of implementation experiences and for ensuring course corrections as needed.
- 2.1.7 NPMU is being set up as a registered society and will be headed by a Project Director, and will have about 15 key professional staff. The staff will be multi-disciplinary including specialists in Environment, Ecology, Ocean Engineering, Finance, Operations, HRD, M&E, Procurement and Communications disciplines. The professional staff will be drafted from within the National/ State government offices/ agencies, or recruited from private sector on contract basis. In addition, NPMU will recruit private sector consultants/ experts (individuals, institutions or firms) from time to time as necessary to strengthen its project management capacity.

- 2.1.8 At the **State Level**: The Departments of Forests and Environment (DoFEs) headed by the Principal Secretary in each state would be primarily responsible for implementing the respective state components of the project. The three state are setting up special purpose SPMUs as registered societies (or have nominated existing such societies) to manage the project in their states and are also establishing Steering Committee to facilitate speedy implementation of the project. These SCs will be headed by the Secretaries of the DoFE and the Project Directors of the SPMUs are their Member Secretaries. The other members of the Steering Committee include representatives of select National and State level departments, agencies and experts in the CZM. SC's main functions would be: providing state level ICZM policy and implementation framework, approval of AAPs and budgets, ensure inter-departmental coordination and partnership, approval to high cost consultancy and works contract awards and provide an oversight on the project's implementation performance and outcomes. The details of SC's mandate, composition, functions and powers are included in the respective state PIPs. SCs will also seek guidance and support of the State ICZM SCZMA (State Coastal Zone Management Authority) from time to time as needed.
- 2.1.9 State Project Management Units (SPMUs): Respective State level SPMUs would be state level counterparts of the NPMU and would have similar responsibilities for the respective state components. SPMUs are being set up in the three States within the respective DOFE with an exclusive mandate for providing statewide leadership, collaboration and management of the ICZM project and would be accountable to NPMU for achieving PDOs. They will adopt various project implementation guidelines issued by NPMU and report to NPMU from time to time on project implementation performance and achievements. SPMUs will send quarterly progress reports to SC of the DOFE, NPMU and the Bank.
- 2.1.10 SPMU's main functions will include overall project planning and management, directly implementing some of the agreed sub-components/ pilots, providing guidance, support and approvals as needed to the pilot investment executing agencies (PEAs), and monitoring their performance, management of project funds including timely release of advance project funds to the PEAs, and ensuring that agreed safeguard and fiduciary policies and procedures are fully complied with by the PEAs. Its functions will also include : capacity building of all project partners, managing state level IEC campaigns and ensuring stakeholder participation, ensuring appropriate procurement practices and high quality of engineering designs and construction, implementing enhanced Governance Action Plan  and regular monitoring and evaluation of project performance in the State. SPMUs will regularly review of strategies and implementation arrangements in the context of implementation experiences and ensure course corrections as needed in consultation with the NPMU.
- 2.1.11 SPMUs are being set up as a registered societies and their MOA, bylaws, mandate, composition, functions, powers and operational procedures will be agreed and included in the respective state PIPs. Gujarat and West Bengal have mandated exiting state agencies to perform the function of the SPMU whereas Orissa has set up an entirely new SPMU for the project. The SPMUs are headed by a State Project Director, and will each have about 10 full time key

professional staff. The staff will be multi-disciplinary including specialists in Environment, Ecology, Ocean engineering, finance, operations, HRD, M&E, procurement and communications disciplines. Most professional staff will be drafted from within the National/ State government offices/ agencies. The rest would be filled on contract basis. The key staff will be appointed not later than three months from the effective date. In addition, SPMUs will recruit consultants/ experts (individuals, institutions or firms) from time to time as necessary to strengthen their project management capacity.

2.1.12 Pilot Investment Executing Agencies (PEAs): Each of the State DOFEs have entrusted the work of implementing select pilot investments to identified specialized agencies in their states. The Secretaries/Director/Head of these departments will be responsible for implementing the respective pilot investments, ensuring acceptable implementation standards and for achieving the output and outcome targets of the pilot investments. They have identified exclusive project teams to be responsible for implementing the agreed pilot projects adopting the Project Guidelines contained in Project Agreements signed with the Bank, the State Project Reports and PIPs. The main function of these project teams would be: preparing DPRs as per nationally accepted technical standards and specifications, seeking appropriate technical and administrative approvals from within their own departments and SPMU, construction/ installation of facilities, managing project funds if required, related capacity building, ensuring compliance with project's safeguard and fiduciary policies, standards and procedures, and supporting concurrent M&E. These Project Teams would report to the respective SPMUs in regard to implementation progress and performance of the pilots and provide accounting and audit and other progress reports as required by SPMU. The sharing of roles and responsibilities – including administrative and fiduciary arrangements – between the SPMUs and the PEAs have been agreed and will be documented in the signed bilateral MOUs.

2.1.13 The role of PEAs would be very important to develop institutional models for post-project and eventual institutionalization of the intended integrated approach to coastal zone management across all coastal States in India. However, to ensure that this pilot project is efficiently and quickly implemented, procurement of works, goods and consultancies, the related financial aspects and an independent M&E mechanisms would be largely managed by the SPMUs, leaving the only the implementation management of priority investment to PEAs- where their core competency will only be utilized. In view of the otherwise complex institutional change agenda of the project, this approach will ensure greater fiduciary assurance in project implementation.

2.2 Pilot Investment Executing Agencies

The Project shall be implemented by the following Executing Agencies:

(a) NPMU

- (i) Survey of India

- (ii) National Center for Sustainable Coastal Management (To be set up)

(b) State Government of Gujarat (SPMU)-GEC

- (i) Bhaskaracharya Institute of Space Application and Geo-Informatics
Gujarat Ecology Commission
- (ii) Gujarat Ecological Education and Research Foundation Jamnagar
Municipal Corporation
- (iii) Gujarat Pollution Control Board
Marine National Park & Sanctuary

(c) State Government of Orissa (SPMU)

- (i) Water Resources Department
- (ii) Orissa State Pollution Control Board
- (iii) Orissa State Disaster Management Authority, Department of
Revenue
- (iv) Department of Forest & Environment (Wild Life)
- (v) Department of Fisheries & Animal Husbandry
- (vi) Orissa Tourism Development Corporation, Department of Tourism
- (vii) Department of Culture
- Superintendent, Orissa State Archaeology, Bhubaneswar
- (viii) Orissa Cooperative Coir Corporation Ltd, Department of Industries
- (ix) Chilika Development Authority
- (x) Paradeep Municipality,

(d) State Government of West Bengal (SPMU)

- (i) Digha Shankarpur Development Authority
- (ii) Forest Department, Govt of West Bengal
- (iii) Institute of Environmental Studies and Wetland Management
- (iv) Public Health Engineering Directorate
- (v) Sunderban Infrastructure Development Corporation Ltd.
- (vi) University of Calcutta

- (vii) West Bengal Fisheries Corporation Ltd.
- (viii) West Bengal State Electricity Distribution Company Ltd.
- (ix) Zoological Survey of India

2.3 Memorandum of Understanding

- 2.3.1 A Memorandum of Understanding will be signed by the NPMU with each of the Pilot Investment Executing Agencies (PEA) under it.
- 2.3.2 A Memorandum of Understanding will be signed by the SPMU with each of the Pilot Investment Executing Agencies (PEA) under it.

CHAPTER 3: PLANNING & BUDGETING SYSTEM

3.1 Introduction

3.1.1 This chapter sets out the framework for the proposed budgeting system including the various aspects of budgeting process. This system indeed, is an inevitable tool in the hands of the Management to control the project costs & monitor the performance in the implementation of various activities of the Project.

PROPOSED BUDGETING SYSTEM

3.1.2 The main objective of an efficient budgeting system is to facilitate budgetary control, i.e., monitoring of performance at regular intervals and the accountability for variance. The proposed budgeting system has been developed with this end objective. The main objectives of the proposed budgeting system are as follows:

- (a) To ensure participation at all levels in the budgeting process from the SPMU-level to the PEA-level.
- (b) To provide a basis for periodical monitoring of the performance of Project Executing Agency.
- (c) To meet World Bank's requirement of quarterly forecasting of Project funds.
- (d) To facilitate fixation of accountability for budget variances.

3.1.3 The budget preparation and allocation process shall be done manually. (However, computers may be used to facilitate the process of preparation of budget estimates, consolidation of the proposed budget, allocations to the PEAs).

3.1.4 On approval of the annual budget of the State Government, the approved budget figures shall be entered into the IUFRR to facilitate budgetary control.

Features of the proposed budgeting system

3.1.5 The salient features for the proposed budgeting system are as follows:

- (1) Realistic budgets by doing a comprehensive analysis of actuals vs budgets.
- (2) Regular comparison of actuals with budgets by breaking down the annual work plan into sub-periods (quarters).

- (3) Analysis of financial and physical performance to obtain a better understanding of the budget variances.
 - (4) Prompt action and clear responsibility for deviation from budgets by ensuring authorization of budgetary deviations at the time of expenditure incurred itself.
 - (5) Integrating budgeting and accounting system by incorporating the work plan components and activities in the chart of accounts of the proposed financial accounting system.
- 3.1.6 A budget centre is an office which shall be responsible for budget preparation and shall be accountable and responsible for budgetary control system. The proposed planning and budgeting under the program shall be done at the following offices —

At National level:

- (i) National Project Monitoring Unit (NPMU)
- (ii) Pilot Investment Executing Agencies (PEAs)

At State level:

- (ii) State Project Monitoring Unit (SPMU)
- (iii) Pilot Investment Executing Agencies (PEAs)

- 3.1.7 Each of the above budgeting centers shall be responsible for budget preparation and shall be accountable / responsible for budgetary control system.

3.2 OVERALL WORK PLAN (OWP)

- 3.2.1 The Overall Work Plan (OWP), which has been agreed by GoI & State Governments with the World Bank, contains State-wise, PEA-wise, year-wise breakup of physical targets, unit cost for each activity, financial targets for each of the activity under each of the component and the details of the components relevant for the project. The OWP shall form the basis of year-wise budget preparation for the year.

3.3 ANNUAL WORK PLAN (AWP) CUM BUDGET

- 3.3.1 Based on the OWP, the AWP shall be prepared. The main features of AWP are as under:

- (1) Preparation of AWP (both for physical and financial targets) along with implementation /procurement schedule enabling breakdown of budgets into quarters.

- (2) AWP to incorporate revisions based on variance analysis of the previous year.
- (3) AWP shall be prepared taking into consideration the funding proportion of the World Bank / GoI / State Governments and beneficiary contribution for the budget year.

3.4 PREPARATION OF ANNUAL WORK PLAN CUM BUDGET

At NPMU

- 3.4.1 In the month of September of the preceding year, the NPMU shall, on the basis of OWP (year-wise), prepare physical and financial targets for each activity. Thereafter, these targets shall be disseminated to its PEAs along with each SPMU. The basic objective of this break-up of physical and financial targets is to provide an overall framework within which, each PEA & SPMU shall prepare their respective budgets and procurement schedule for the budget year.
- 3.4.2 On the basis of these physical and financial targets given by NPMU, each PEA under NPMU shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Work Plan is enclosed vide **Annexure 1a**.
- 3.4.3 While preparing the AWP, the PEAs under NPMU shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.
- 3.4.4 The PEA shall analyze the deviations, if any, with the physical and financial targets as communicated by the NPMU and specify reasons thereof in writing for approval.
- 3.4.5 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.
- 3.4.6 On receipt of AWP from the PEAs, the NPMU shall compile the AWP for the activities to be undertaken by it, i.e., Component-I.
- 3.4.7 Each SPMU shall also submit its approved AWP in the format enclosed vide **Annexure 1b** after following the process described in subsequent paragraph.
- 3.4.8 The NPMU shall compile the budgets submitted by the SPMUs with its own AWP to arrive at National-level AWP for ICZM project. The format of consolidated AWP is given vide **Annexure 1c**.
- 3.4.9 The Consolidated Annual Work plan at National-level shall be prepared taking into consideration the funding proportion of the World Bank and the State Governments for the budget year.

3.4.10 This Consolidated AWP-cum-Budget at National-level will be submitted to the MoEF for its approval.

At SPMU

3.4.11 The SPMU shall also, on the basis of targets received from NPMU, prepare PEA-wise physical and financial targets for each activity. The basic objective of this break-up of physical and financial targets is to provide an overall framework within which, each PEA shall prepare their respective budgets and procurement schedule for the budget year.

3.4.12 On the basis of these physical and financial targets given by the SPMU to each of its PEAs, each PEA shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Work Plan is enclosed vide **Annexure 1a**.

3.4.13 While preparing the AWP, the PEA shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.

3.4.14 The PEAs shall analyze the deviations, if any, with the physical and financial targets as communicated by the SPMU and specify reasons thereof in writing for approval.

3.4.15 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.

3.4.16 Thereafter, the SPMU shall compile the AWP submitted by the PEAs along with its own physical and financial targets to arrive at States Consolidated AWP for ICZM project. The format of consolidated AWP is given vide **Annexure 1b**.

3.4.17 The Consolidated AWP of the State shall be prepared taking into consideration the funding proportion of the World Bank and the state Government for the budget year.

3.4.18 This Consolidated AWP at State-level will be submitted to the NPMU for its approval and further consolidation at national-level.

At PEA

3.4.19 On the basis of physical and financial targets given by NPMU/SPMU, each PEA shall prepare its own physical and financial targets. These again would be broken down into quarterly basis. The format in which the PEA will prepare the Annual Work Plan is enclosed vide **Annexure 1a**.

3.4.20 While preparing the AWP, the PEAs shall also analyze the actual vs budgeted performance for the previous year except in the first year when it is not possible. For the first year, the annual budget of the OWP will serve as the annual budget but will have to be broken down into quarterly basis.

- 3.4.21 The PEA shall analyze the deviations, if any, with the physical and financial targets as communicated by the NPMU/SPMU and specify reasons thereof in writing for approval.
- 3.4.22 If the reasons for deviations are not satisfactory, clarifications shall be sought from the concerned PEA.

3.5 BUDGET CALENDAR

- 3.5.1 In order that the exhaustive budgeting exercise gets completed within the specified time frame, a budgeting calendar has been prepared, which gives the time schedule for the preparation of the budget in each of the agencies. The budget calendar is detailed as per Table-1 below:

Table-1

S.No.	Activity	Responsible Agency	Completion Date
1	Dissemination of Annual Targets to each PEA under SPMU	SPMU	15 th September of Previous year
2	Preparation of AWP by PEAs and submission to SPMU/NPMU	PEAs	15 th Oct. of Previous year
3	Consolidation of State AWP by SPMU and submission to State Steering Committee for Approval	SPMU	31 st Oct of Previous year
4	Approval of Consolidated AWP by State Steering Committee	Steering Committee	15 th Nov of previous year
5	Submission of the approved AWP to NPMU for their approval	SPMU	20 th Nov of Previous year
6	Consolidation of AWP for the project	NPMU	30 th Nov of Previous year
7	Submission of Consolidated AWP for the project to MoEF , GOI for approval	NPMU	5 th Dec. of Previous year
8	Approval of the Consolidated AWP for	MoEF , GOI	15 th Dec of Previous

	the project by MoEF		year
9	Submission of the AWP to the World Bank and respective SPMUs	NPMU	20 th Dec of Previous year
10	Submission of the approved AWP to the Finance Dept GOI for inclusion in the GOI Budget	NPMU	31 st Dec of previous year
11	Submission of the approved AWP to the Finance Dept of State Governments for inclusion in the State Budget	SPMU	31 st Dec of previous year

3.6 BUDGET / AWP APPROVAL PROCESS

Budget Committee and Budget Approval

- 3.6.1 State SPMU shall submit its AWP to the State Steering Committee set up by the respective State Governments.
- 3.6.2 The State Steering Committee shall review the AWP proposed by SPMU keeping in view the long term perspective plans of the ICZM Project.
- 3.6.3 After the AWP is approved by the Committee, it shall be forwarded to NPMU for their approval and consolidation for the project as a whole.
- 3.6.4 The NPMU shall submit the consolidated AWP to the MoEF, GoI for approval.

Allocation of Approved Budget

- 3.6.5 After the AWP has been approved by the GoI, the approved AWP shall be submitted to the Finance Dept of GoI for inclusion in the Central Budget.
- 3.6.6 After the AWP has been approved by the respective State Steering Committees & further by the GoI, the approved AWP shall be submitted to the Finance Dept of State Governments for inclusion in the State Budget.
- 3.6.7 The Budget Allocation by the State Government to SPMU shall be the State Government share in the ICZM project and not the entire ICZM expenditure for that year. The Budget Allocation by the Central Government to NPMU shall be the GoI share in the ICZM project.

3.7 BUDGET PERIOD AND REVISION OF BUDGETS

- 3.7.1 Budget period shall be the same as the financial year i.e., from April to March of each year.
- 3.7.2 Budgets shall be prepared for the budget year and then disseminated over quarterly budgets. This would enable periodical performance review through quarterly variance analysis. The budgets will be broken down into quarterly budgets based on the detailed Annual Work Plan prepared at PEA-level.
- 3.7.3 Normally, budgets should be applicable for a full year. As the budgeting process involves forecasting on the basis of certain assumptions the possible variations should be planned at the time of preparation of the budgets. Any significant variations from the original assumptions would necessitate revision of budgets within the budget year itself.

BUDGET HEAD (STATE BUDGET)

- 3.7.4 Based on agreement with the Finance Dept of the State Government, the detailed Annual Work Plan will be summarized by Project Head ICZM and submitted to the Finance Dept for facilitation budgeting in the State Budget together with expected inflows from the World Bank and GoI.

Based on this, the program would be budgeted under the program budget head for all the components and the SPMU will have the flexibility to re-allocate budgets within the components.

- 3.7.5 The budget heads at the center and the states is as under :-

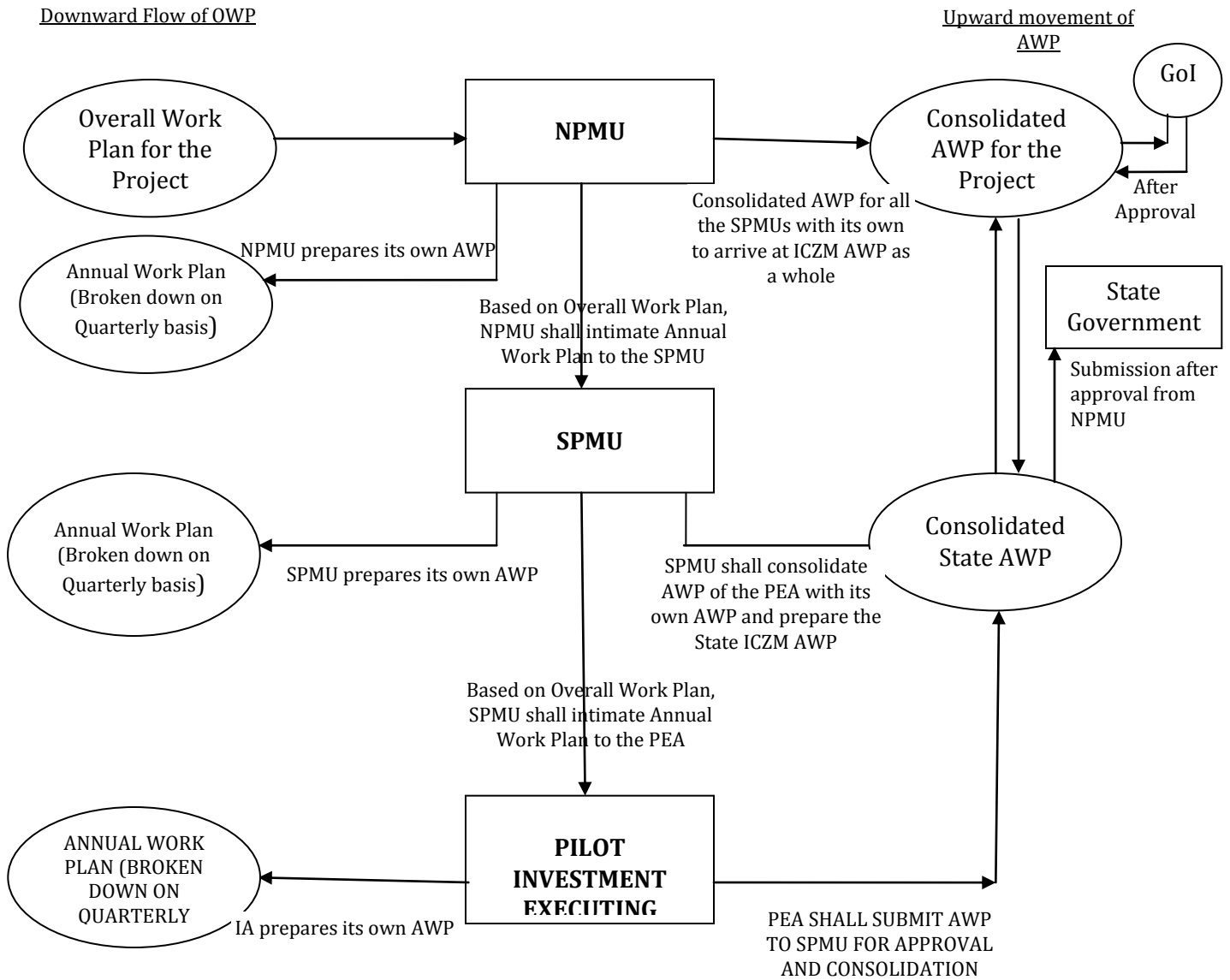
S.No	Particular	Budget Code
1	NPMU/MoEF	3435-Ecology & Environment (Major Head) 04- Prevention and Control of Pollution (Sub Major Head) 104- Impact Assessment (Minor Head) 04- National Coastal Management Programme
2	Gujrat	343503003018 - Ecology & Environment,
3	Orissa	22-3435-Ecology & Environment-03-Environmental Research & Ecological Regeneration-102-Environmental Planning & Coordination-2121-World Bank assisted Coastal

		ecological system for protection & Development-41048-Grants-837-preparation and implementation of Integrated Coastal Zone Management Plan.
4	West Bengal	3435-03-101-CONSERVATION PROGRAMME-SP-Annual Plan (Annual Plan & Eleventh Plan)-002-Coastal Zone Management [EN] -31-Grants-in-Aid-GENERAL-02-Other Grants.

Budget Preparation Process – A FLOW CHART

3.7.6 An overview of the budget process is provided in Exhibit 1.

BUDGETING PROCESS



CHAPTER 4: FUND FLOW MECHANISM

4.1 MAJOR INSTITUTIONS PROVIDING FUNDS

This chapter gives the process of flow of funds from the Project funding bodies to its Executing Agencies.

4.1.1 Funding Agencies:

The Project will be funded by the following agencies:

- (i) World Bank
- (ii) Government of India
- (iii) State Government (Gujarat, Orissa and West Bengal)

4.2 FUND FLOW

4.2.1 The Flow of Funds related to the Project is divided into following broad heads:

- (i) Funding by Government of India
- (ii) Funding by the State Governments.
- (iii) Transfer of funds from NPMU to SPMU.
- (iv) Transfer of funds from the SPMUs to various PEAs.
- (v) Funding from World Bank.

4.2.2 **FUNDING BY THE GOVERNMENT OF INDIA**

4.2.2.1 The Government of India (MoEF) shall provide funds to the NPMU for project implementation. Accordingly, GoI shall make budgetary allocation for NPMU in its annual budget and the NPMU shall incur expenditure to the extent of its budgetary allocation.

4.2.2.2 MoEF will provide project funds to the NPMU in the form of grants in aid. These funds will be disbursed to an exclusive bank account maintained in a Nationalized / Schedule Bank by NPMU for the purpose of project implementation. MoEF will release annual funds to the NPMU accordance with the project cost tables and procurement plan. MoEF will transfer the amount to NPMU in one installment to NPMUs bank account in the beginning of the year based on the annual work plan and the amount spent in the last financial year.

- 4.2.2.3 This Bank account will be maintained by Project Director, NPMU and all financial transactions will be transacted from this Bank account. The Project Director, NPMU will be duly authorized to draw and disburse the funds from the bank account.
- 4.2.2.4 The Project Director will be responsible for disbursing funds to the state level project management units, consultants to the projects, institutes and individuals involved in project implementation and procurement agencies.
- 4.2.2.5 The Project Director will be authorized to disburse funds as per the approved cost table of the project. Any deviation will require approval of the Governing Council/Steering committee

4.2.3 **FUNDING BY THE STATE GOVERNMENT**

- 4.2.3.1 The State Government shall provide funds to the respective SPMU's for the execution of the project. The funding by the State government to the project would be made through allocation of funds in its annual budget under the account head of ICZM (as per state government's Chart of Account). Hence, the budgetary allocation would indicate the funds with the project for that year. The state government shall physically transfer the funds to the SPMU.
- 4.2.3.2 Based on the approved Budget and AWP, the entire state contribution would be provided to SPMU in the first quarter itself in one tranche. This fund allocation will be on a lumpsum basis and not broken down into components thereby giving SPMU the flexibility to utilize the funds as per its requirement.
- 4.2.3.3 The SPMU shall keep the funds in the bank account opened for the project.

4.2.4 **TRANSFER OF FUNDS FROM NPMU TO SPMU**

- 4.2.4.1 As and when the funds are available to NPMU, the same shall be made available to the states as per there AWP. The amount of funds to be disbursed by the State Government will be limited to its budgetary allocation for the Project.
- 4.2.4.2 The NPMU will directly transfer the GoI share to the State in the bank accounts of SPMUs with a intimation to the State government departments .The NPMU will within two weeks of receipt of funds from MOEF, transfer SPMU's share of the funds received to the relevant SPMU. The amount would be transferred in one installment from the NPMU to SPMU to their bank account on a yearly basis based on the annual work plan and the amount spent in the last financial year.

4.2.5 **TRANSFER OF FUNDS FROM SPMU/NPMU TO PEA**

SPMU TO PEA

- 4.2.5.1 Based on the AWP and the progress of works the PEA will submit their individual demands from time to-time from their respective Nodal Officer to the SPMU which is the controlling office of the project in the state.
- 4.2.5.2 Based on funds made available by the State Government/NPMU from time to time, SPMU shall make funds available to each PEA based on the Annual Work Plan prepared by the state.
- 4.2.5.3 The SPMU would open link bank accounts for the PEA's in the same bank in which it has its account. The account would be opened in such bank account which would offer both Pay in Par facility and Core Banking solution. These link bank accounts would be operated by the designated PEA officers. There is an option that the bank account could be either jointly operated by one person from SPMU and one person from PEA or both the signatories can be from PEA based on the geographical and other constraints and as per the state's decision.
- 4.2.5.4 The SPMU on a quarterly basis would set the maximum limit of amount which can be used by the PEA from this bank account. The limit would be set based on the actual work in progress and the expected work to be carried out.
- 4.2.5.5 SPMU can decide whether to do the actual cash transfer or provide a line of credit to the link bank accounts. From the point of view of financial prudence, it would be better to operate on a line of credit model with pooling/netting of funds in the main bank account on a periodical basis.
- 4.2.5.6 The PEA would use the link bank account cheques and would make payments for the expenditure incurred by them for the project.
- 4.2.5.7 In case of credit limit established once the link bank account cheques are encashed the amount would be automatically transferred from the Main account to the link account by the bank. The banker should be able to provide link bank accounts statement which would be used by the SPMU for bank reconciliation.
- 4.2.5.8 The SPMU can release limit/funds based on whether the reporting is done by the PEA's on a timely basis. This will help the SPMU in having dynamic control over the cash flow, accounting and reporting and accounting can be centralized in the SPMU.
- 4.2.5.9 PEA would not be allowed to divert the amount to other schemes. Further, no diversion of funds shall be made from this a/c to another non- project a/c of the EE/ DDO (If any).
- 4.2.5.10 PEA shall be fully responsible for proper utilization of the funds and also submission the reports to the SPMU.

NPMU TO PEA

4.2.5.11 NPMU has only one Existing PEA i.e Survey Of India (SOI). SOI is a central government organization under Department of Science and Technology under the Ministry of Science and Technology. In case of SOI, as they can work through the civil deposit works account concept, where a separate sub head under the civil deposit main account would be created which would be used for tracking the receipt as well as expenditure of the funds incurred. The accounts would be maintained at both the project director office and also the Regional PAO. The payments would be made by the PAO using the deposit account. The PAO prepares monthly accounts which would be submitted to NPMU.

4.2.6 **FUNDING BY THE WORLD BANK**

4.2.6.1 The ICZM project is a World Bank assisted project. Under the proposed arrangement, the World Bank shall provide IDA funds to the Central Government for financing the developmental activities under this project.

4.2.6.2 The World Bank shall provide funds to the project by depositing money to the 'Designated Account' of the project.

4.2.6.3 **Designated Account**

The Designated Account is a revolving account in which World Bank deposits funds. These funds are used exclusively to cover the Bank's share of the eligible expenditure on the project. The Designated Account is opened by the Government of India with the Reserve Bank of India. This account is maintained separately for each World Bank funded project in convertible foreign exchange.

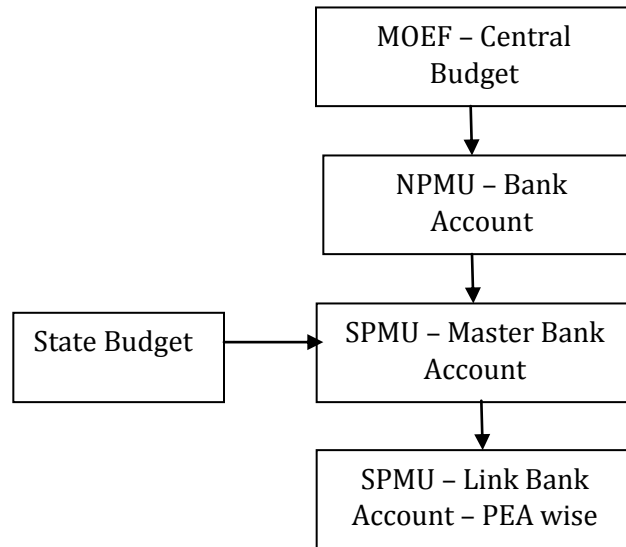
4.2.6.4 **Operation of the Designated Account**

- 5 A Designated Account (DA) would be maintained in the RBI and would be operated by the DEA of GOI. Bank funds will flow from CAAA/ MOF through budget to MOEF through a separate budget line item for ICZM project. There will be an initial advance followed by IUFRR based reporting and disbursement. Advances to and reporting for the DA would be in accordance with the Bank's operational policies. There will be a one time fixed advance for US\$ 10 million which will be maintained throughout the project life and adjusted in the last year of the project. The project will submit withdrawal applications to CAA&A in DEA for onward submission to Bank for reporting eligible expenditures and requesting advances of the designated account or reimbursement.
- 6 From the second quarter the bank will finance actual expenditures that are made on project components as reported in the IUFRRs. All expenditures reported in the IUFRRs will be subject to confirmation/certification by the annual audit reports. Any

difference between the expenditure reported in the IUFs and those reported in the annual audit reports will be analyzed and those expenditures which are confirmed by the Bank as being not eligible for funding (refundable to IDA) would be adjusted in the subsequent disbursements. The IUF format have been outlined in the Financial Management Manual and has been agreed.

4.2.7 Fund Flow Chart

4.2.7.1 The fund flow arrangement for ICZM Project along with the detailed fund flow chart for each state is given under *Exhibit 2*.



CHAPTER 5: FINANCIAL AND ACCOUNTING POLICIES

This chapter lays down the financial and accounting policies for the project.

It should be noted that the financial and accounting policies contained in this manual shall supplement the policies given in the **respective State Financial Rules**.

5.1 METHOD OF ACCOUNTING

- 5.1.1 **Cash Basis of Accounting:** The project accounts will be maintained in double entry system of accounting and will follow the cash basis of accounting, i.e., a transaction should be accounted for at the time of making payments only.
- 5.1.2 All payments should be charged off to the relevant expense account head at the time of making the payment except in case of certain receivables and payables, which are to be specifically mentioned with reasons in the Notes on Accounts, may be accounted for on accrual basis. In the case of advance payments, the process given elsewhere in this Manual may be followed.

5.2 TREATMENT FOR ADVANCE PAYMENT

- 5.2.1 Advances are defined as money given in advance, which is to be adjusted against goods/services to be received in future. An advance payment should continue to be treated as an advance until its final adjustment. At the time of periodic reporting by the project executing agency, advances outstanding should be indicated separately.
- 5.2.2 Advance payments can be made only for the following purpose:
- (a) **Advances to suppliers/contractors/vendors for procurement of works, goods and services:** These advances shall be made in accordance with the purchase order issued or contract signed. These should be charged off to the relevant account head at the time of adjustment of advance on actual receipt of goods or services
 - (b) **Advances to the project personnel (for the purpose of travel, conveyance etc.):** These advances are temporary in nature and are to be settled on submission of bills / statements. The advance amount should be charged off to the relevant account head on passing of the bills only.

No staff advance/ loan (such as salary advance, house loan etc.) should be given out of the project funds.

- (c) **Advances to sub-contractors to carry out project activities:** These advances should be charged off to the relevant account head on receipt of details of the expenditure incurred by the sub-contractor and its approval by the concerned project official.

5.3 FIXED ASSETS AND DEPRECIATION

- 5.3.1 Assets acquired under the project would be valued at cost including all direct costs (i.e., purchase price, transportation expenses, installation charges and other expenses incurred for bringing the fixed asset in working condition), incurred prior to its first use.
- 5.3.2 Assets created / constructed as part of the project activity should be valued at the direct cost incurred in creating / constructing the asset.
- 5.3.3 Assets both acquired and constructed should be valued at its full.
- 5.3.4 No depreciation should be charged on fixed assets in the Project Financial Statements. This fact should be disclosed in the Notes to Accounts attached to the Project Financial Statements.

5.4 EXPENDITURE WHICH WOULD BE CHARGED TO THE PROJECT

- 5.4.1 (a) All direct costs like purchase of material & supplies relating to project activities should be charged to the project.
- (b) No expenditure which has already been charged to any other project should be charged to this project.
- 5.4.2 *Project Expenditure:* All payments made by the Executing Agencies for works done or services rendered shall be termed as expenditure, excluding advance payment and payment of Government dues and deductions recovered from the salary bills or from the bills of the contractors, suppliers and other employees. The Project being jointly funded by the State Governments and by the World Bank, the Project Accounts reflect the total expenditure incurred by the Project. Therefore, all receipts, payments and expenditure are to be recorded in gross amounts, irrespective of the extent to which these expenses may be reimbursable by the World Bank.

5.5 CONTRACTORS & SUPPLIERS PAYMENTS

- 5.5.1 In case of supplies, no payment is permissible until the stores have been received and surveyed, except where payments are required to be made through Letter of Credit (LC) established in a Commercial Bank against irrevocable Bank Guarantee as a security against the amount advanced.

- 5.5.2 In case of Works Contract, payments shall be made to the contractor within a period of 60 days of presentation of the running bill. The running bills will be first submitted to respective Project Executing Agency. On receipt of the bill, the same shall be recorded in the Contractor Register before submitting the bill to the competent authority for technical verification. After due verification and comparing it with Measurement Book maintained by the department, the nodal officer may approve the bill and release the payment after statutory deductions. The PEA will record the details in the Contractor Register before releasing cheque to the contractor.
- 5.5.3 The payment for last running bill shall be made after receiving Work Completion Certificate from appropriate authority.
- 5.5.4 Defect liability period shall be for one year from the completion of the contract and the security shall be released after getting of third party quality assurance certificate.

CHAPTER 6: BOOK-KEEPING & ACCOUNTING

6.1 OVERVIEW OF THE EXISTING SYSTEM

- 6.1.1 At present, all the participating states and the Government of India involved in the implementation of this project follow the Government Accounting System. This system is well documented in their respective Financial Rules.
- 6.1.2 For the purpose of project accounting / budgeting, each implementing state allots a specific code to the project and the budget allocations for the project are made under various account heads. The accounting of the actual expenditure is done by state project offices as per the chart of accounts specified by the government under this code.
- 6.1.3 Currently, the accounting is carried out manually. However, some of the Executing agencies use computers for the purpose of compiling statements.

6.2 ACCOUNTING UNDER THE PROJECT

To have prudent fund flow and have better control on accounting and reporting at the SPMU the following mechanism is suggested:

- 6.2.1 There are 30 PEAs identified under the project – 2 in NPMU, 6 in Gujarat, 10 in Orissa and 12 in West Bengal. The PEAs will work under the overall guidance of the respective NPMU/SPMUs and the controlling department. The legal status of the PEAs and controlling departments in the state are varied – registered societies, company under the companies act, government departments, authority under separate act, urban local body etc. The PEAs follow accounting, and audit codes as prescribed by the respective governments/rules. The PEAs will follow uniform project accounting and reporting procedures for the project as prescribed in this Manual, which will ensure proper FM systems and procedures (comprising budgeting, internal controls, accounting, reporting and audit) to account for and report on the PEA's share of project resources and expenditure as per requirements of the Bank .
- 6.2.2 Each PEA will be subject to the normal financial supervision under the project including timely reporting, compliance with project Financial Management (FM) guidelines as documented in this Manual, audit etc. Each PEA will designate a senior officer as Nodal officer of that department. Nodal officer of each PEA shall be the person primarily responsible for implementation of sound FM guidelines for the ACs under him. He will be assisted in this function through training, capacity building support by the NPMU/SPMU.
- 6.2.3 The NPMU/SPMU would open a separate bank account for the project. The entire amount received would be kept and accounted through this account.

- 6.2.4 The SPMU would open link bank accounts for the PEA's in the same bank. The account would be opened in such bank account which would offer both Pay in Par facility and Core Banking solution. These link bank accounts would be operated by the designated PEA officers. (There is an option that the bank account could be either jointly operated by one person from SPMU and one person from PEA or both the signatories can be from PEA based on the geographical and other constraints and as per the state's decision).
- 6.2.5 The SPMU on a quarterly basis would set the maximum limit of amount which can be used by the PEA from this bank account. The limit would be set based on the actual work in progress and the expected work to be carried out.
- 6.2.6 SPMU can decide whether to do the actual cash transfer or provide a line of credit to the link bank accounts. From the point of view of financial prudence, it would be better to operate on a line of credit model with pooling/netting of funds in the main bank account on a periodical basis.
- 6.2.7 The PEA would use the link bank account cheques and would make payments. PEA would compile a monthly statement of expenditure made and cheques issued and send it along with cheque issue statement/ copies of cash book to the SPMU for accounting within 10th of next month. SPMU would finalise the accounts within 30th of the following month. The original documents would be retained and filed separately in the PEA which would be audited as a part of the internal audit.
- 6.2.8 In case of credit limit established once the link bank account cheques are encashed the amount would be automatically transferred from the Main account to the link account by the bank. The banker should be able to provide link bank accounts statement which would be used by the SPMU for bank reconciliation.
- 6.2.9 Transfer of funds between NPMU, SPMU and PEAs will be accounted through inter-unit accounts¹ which will be reconciled on a quarterly basis and will be closely monitored by internal audit. All bank accounts will also be reconciled on a monthly basis.
- 6.2.10 The SPMU would be carrying out the final accounting for all the expenses in 'the Accounting Software. For each PEA which has a separate link account accounting will be carried as a branch of SPMU and a separate ledger account in TALLY will be opened'. For expenses at the SPMU a separate SPMU-Head office account will be opened in Accounting Software. The SPMU can release limit/funds based on whether the expenditure statement are submitted on a timely basis. This will help

¹ NPMU will maintain inter-unit accounts for Gujarat, Orissa and West Bengal in its books to record transfer of funds from NPMU to the SPMUs. The SPMUs will maintain inter unit account of the NPMU in its books. The SPMUs will also maintain inter-unit accounts of the PEAs in the state to record transfer of funds from SPMU to the PEAs. The PEAs in turn will maintain inter unit account for the respective SPMU in its books.

the SPMU in having dynamic control over the cash flow, accounting and reporting and accounting can be centralized in the SPMU.

- 6.2.11 The Statutory Audit of accounts can be done at the SPMU level with sample audits of the PEA as required as per the auditing standards. The internal audit would cover the PEA level activities.
- 6.2.12 PEA would not be allowed to divert the amount to other schemes. Further, no diversion of funds shall be made from this a/c to another non- project a/c of the EE/DDO (If any).
- 6.2.13 PEA shall be fully responsible for proper utilization of the funds and also submission the reports to the SPMU. The PEA would be required to maintain the following minimum important books, cash book, general ledger and cheque issue registers which would be used as the basis for reporting to SPMU.
- 6.2.14 SPMU would be fully responsible for submitting the reports and claims to the NPM.

6.3 USE OF ACCOUNTING SOFTWARE

- 6.3.1 NPMU and SPMU for the purpose of accounting will record and maintain project books of account in an off the shelf acceptable and well established accounting software *Accounting Software* . Necessary system support will be provided by the **PFMC** recruited by NPMU & SPMU.

6.4 CHART OF ACCOUNTS

- 6.4.1 A Chart of Accounts (CoA) has been developed keeping in view the needs of the accounting system and World Bank Reporting requirement. The CoA has been designed in such a way that it facilitates reporting by Component, Activity and Disbursement Category. It contains a list of groups, sub-groups & heads of accounts. The CoA also identifies the flow of each head of account into the Annual Financial Statements for the purpose of consolidation. It will be noted that the accounting software will automatically consolidate the heads of accounts into sub-groups and groups and hence no separate manual posting to these groups and sub-groups needs to be done. The CoA is based on the cost tables finalized by the various PEAs. The CoA is enclosed vide **Annexure-2**.

6.5 BOOKS OF ACCOUNTS

- 6.5.1 The following is the list of books of accounts that are to be maintained to record all the financial transactions of the Project at the NPMU/SPMU. Both NPMU & SPMU will open and maintain these books of account in the prescribed formats which are enclosed as **Annexure-3**.

- (a) Cash Book (Self generated Format from Accounting Software)
- (b) General Ledger (Self generated Format from Accounting Software)
- (c) Advances Register (Self generated Format from Accounting Software)
- (d) Cheque Issue Register (Format No. 3a)
- (e) Contractor Register (Format No. 3b) – A contractors’ register showing details of running bills received from contractors be maintained. The register should have a separate folio for each contractor. The details of deductions made per bill along with the details of payments made against that bill be entered into this register.
 - Fixed Asset Acquired/Constructed Register – only to record assets acquired or constructed during the project period with project funds (Format No. 3c). It will be necessary to keep an accurate account of such assets for physical control.

6.5.2 The PEA would be required to maintain the following minimum important books registers which would be used as the basis for reporting to SPMU.

- a. Manual Cash book
- b. Manual General ledger
- c. Cheque issue registers

6.5.3 **Maintenance of the Cash Book**

6.5.3.1 The ACs are required to maintain a separate Cash Book for the Project. Transaction relating to the project should only be entered in the cash book and the transactions relating to schemes/project of other Government Ministries, Agencies etc should not be included in these Cash Books. For the uniform classification of accounts, a list of account heads is annexed. New heads of accounts MAY be opened with consent of the SPMU.

6.5.3.2 All receipts and payments will be posted in the Cash Book on a regular basis. The entries will mention the date, head of account, the account code, the voucher number, the cheque number and a short description of the transaction.

6.5.3.3 The Cash Book will be certified, summarized, closed and signed on the last working day of the month by the AC. The monthly closing balance will have details of balances available in the Bank Pass Book and the details of the Cash-in-Hand.

6.5.3.4 All receipts of money will be entered in the Cash Book on the day they are received.

6.5.4 Maintenance of General Ledger, Advances Ledger and other Subsidiary Registers

6.5.4.1 Each AC will maintain a General Ledger and an Advances Ledger. Different pages of the General Ledger will be for different heads of accounts (including advances) and different pages of the Advances Ledger will be for each entity / individual to whom advances are granted. Each receipt and payment in the cash book must be posted to the General Ledger and Advances, as also their adjustment and/or refund must also be posted to the Advances Register. The entries will mention the date voucher number, cheque number and a short description of the transaction.

6.5.4.2 At the end of the month, a head-wise abstract will be prepared showing monthly totals of payment under each head. The summary of the Advances Ledger accounts should tally with the total of advances as per the General Ledger.

6.5.4.3 The AC will also maintain a Cheque Issue Register and record details of all cheques issued, including details of stale and/or cancelled cheques.

6.5.4.4 A monthly Trial Balance based on the General Ledger and Cash Book will be prepared. Since the project will be using Accounting Software , the Trial Balance, General Ledger will be self generated by the Accounting Software.

6.5.5 Maintenance of General Ledger

6.5.5.1 Fixed Asset Register should be prepared wherein all particulars of the assets acquired or constructed should be posted from the proper accounts immediately after the payment. The fixed assets register should show the details like name of supplier, quantity, make, identification number, value and location of each category of fixed asset held by the project.

6.5.5.2 An identification number for each category and each fixed asset item should be assigned for easy identification of the assets. These identification numbers should be painted on each item, and the number should be indicated on the fixed assets register for each asset.

6.5.5.3 The finance manager should assign a responsible staff to maintain the fixed asset register and make entries therein from the appropriate accounts immediately after the payment for each item is made by the accountant.

6.5.5.4 Physical verification of fixed assets shall be conducted at least once a year and report placed before Project Director. A Committee of three persons shall be formed by the Project Director to conduct the physical verification.

6.6.6 Guidelines for Payments

- 6.6.6.1 For effective control over disbursements, it is essential to determine the number and status of persons authorized to approve expenditures and sign cheques, the limitation of their authority, and the minimum number of signatories required for the operation of bank accounts. This would be governed by the financial rules of the state.
- 6.6.6.2 All payments must be supported by documents such as bills, receipts and cash memos.
- 6.6.6.3 All Payments must always be made by cheque unless there is a necessity to pay by cash.
- 6.6.6.4 All payments exceeding Rs. 5,000/- shall be made by Cheque / Demand Draft.
- 6.6.6.5 ACs will release their funds as an Advance only in exceptional cases upon written instructions from the SPMU.
- 6.6.6.6 All paid vouchers will be retained for the period of 10 years from the date of completion of the Project or till the last audit is completed and settled.
- 6.6.6.7 A system of debit voucher for each payment (whether by cheque or in cash) will be introduced. The debit vouchers indicate particulars of expenditure, account code and head under which it is classified and mode of payment (cheque/DD/cash). The debit voucher will be approved by the Accounts Officer and shall form the basis for posting to the Cash Book.
- 6.6.6.8 When disbursing the payments, the Accountant should obtain the signature of the payee or his authorized representative acknowledging receipt of cash or cheque as the case may be.
- 6.6.6.9 Prior to payment for services, a copy of the order authorizing the engagement of the person concerned for a particular job or assignment and a statement of completion of the job or assignment should be obtained. When a cheque payment is made to any firm an official receipt should be obtained.
- 6.6.6.10 All payments relating to pilot investments would be made by PEA based on the work certification. Bills will be submitted by the Contractor to the respective PEA. On receipt of the bills, the PEA shall verify them both financially and technically.
- 6.6.6.11 Counterfoils of cheques issued should bear the payee's name, amount, date of issue, voucher no. and initials of the signatories.

6.6.6.12 Cheque book/money should always be kept under lock and key in safe custody of the Accountant.

6.6.6.13 Cancelled cheques should be retained in the cheque books. The corners of the cheque should be torn off as a measure of safeguarding any misuse of such cancelled cheques in future. The word 'CANCELLED' should be written over the cancelled cheques.

6.6.6.14 Payment must be posted in the Cash Book on a daily basis.

Photocopies of the cheque/draft paid to parties should be maintained along with voucher

6.6.7 Recording of Accounting Transactions

6.6.7.1 Payment to Contractors:

- (a) Mobilization Advance: Will be treated as advance at the time of making the payments. Upon submission of running account bills, the advance will be adjusted by crediting 'advance account' and making a debiting relevant expenditure through a adjustment voucher.
- (b) Bill Payments: This is recorded as a debiting the Expenditure to the extent released to them. The deductions against their bill, on account of taxes, retention money etc will be recorded also be debited under the same head and crediting similar amount under the head 'Contractors' Deductions and Deposits'.
- (c) Deposit / Release of Deductions: Any payment of money retained as a deduction is debited in the Bank column (for cheque payments) under the head 'Contractors' Deductions and Deposits'.

6.6.7.2 Payments to Self-Help Groups, User Groups, etc: The payments would be covered by the agreement between the PEA and such groups. Payments to these groups would be done in advance and adjusted based on UC provided by them. expenditure under the specified head and recorded as a debit in the Bank column (for cheque payments).

6.6.7.3 Bank Charges: Upon scrutiny of the statement after receipt from the Bank, if any bonafide charges have been deducted from the account, a debit entry is recorded in the Bank column as 'Bank Charges'.

6.6.7.4 Payment of Advances: This is recorded as a debit in the Bank column (for cheque payments) as a 'advance', e.g., travelling advance. Upon submission of the payment vouchers, the advance will be adjusted by a credit entry of the full amount of the advance in the Cash column under the head 'advance' and by a debit entry of the amount adjusted in the Cash column as an expenditure, e.g., traveling expenses.

6.6.7.5 Correction of Mistakes: In the event of a mistake being discovered at a later date, it will be corrected by another entry on the date of discovery and NOT by overwriting / erasing / correcting the wrong entry and any resulting changes in the voucher or cash book. The correction entry will have the same head of account as the original one.

6.6.8 **Bank Reconciliation Statement(BRS)** – Monthly Bank Reconciliation Statements should be prepared at NPMU & SPMU . The steps to be followed are given hereunder: Within ten days following the end of every month, bank statement should be obtained from the bank.

- Soon after receiving the bank statement from the bank the balance appearing therein should be reconciled with that shown in the cash book by preparing the bank reconciliation statement
- Each month the bank reconciliation statement should be reviewed carefully to investigated long outstanding cheques deposited or issued or any other item for settlement.
- All debits charged by bank for bank charges or commissions and all credits for the interest and other that appears in the monthly bank statement should be scrutinized carefully before accepting them as correct and before recording those debit/credits in the cash book.
- Cheques older than 6 months from date of issue should be written back into the cash book noting the reference number and date of payment voucher and liability towards concerning Head of Account be created for payment in future.
-
- SPMU would be responsible for preparing the BRS and it should be done on a monthly basis.

6.7 CONSOLIDATION OF ACCOUNTS

6.7.1 Accounting entries of the project will be made at SPMU & NPMU and these will need to be consolidated to get financial information of the project as a whole. Since the accounting at these places is being maintained in the Accounting Software. It's consolidating feature (Group Company feature) shall be used to consolidate the data for the project as a whole .

PEA's shall report manually the expenditure incurred by them during the month by the 10th of the subsequent month . Based on these SPMU will complete it's books of accounts by 30th of the subsequent. In the Accounting Software each SPMU shall open data files for Head office and for each PEA (which will be treated as a

branch account .The branch account will also be maintained at SPMU based on the reports received from each PEA. The Accounting Software's consolidating feature (Group Company feature) shall be used to consolidate the data for respective SPMU i.e consolidation of HO and branches to arrive at consolidated data for the state as whole .

After successful completion of the books by SPMU and NPMU, NPMU will consolidate the accounting data of the 3 states along with its own accounting transactions. The SPMU's data will be transferred to NPMU by all the three States independently by 30th of Subsequent month .

The consolidation will take place using a specific feature of the Accounting Software. Each SPMU will have a unique 5-digit code which will be represented by the name of the subfolder under //[Name of the Accounting Software]/data sub-directory. The data of each SPMU will be transferred to NPMU through email or CDs. This data will be transferred to the computer where NPMU's accounting record is available. A group company will be created in this computer wherein the accounting data of various SPMU will be consolidated.

The backup of data at SPMU as well as NPMU will be taken every month by the PFMC after consolidation.

ACCOUNTING ENTRIES

(In the Books of NPMU)

1. Transfer of Funds from MoEF to NPMU

1.1 Bank Account Dr.
 To Government of India / MoEF
(being funds received from MoEF through receipt voucher)

2. Transfer of Funds from NPMU to SPMU / PEA

2.1 Inter Unit Transfer (NPMU-SPMU) Account Dr.
 To Bank Account
(being funds transferred to SPMU through payment voucher)

2.2 Inter Unit Transfer (NPMU-PEA) Account Dr.
 To Bank Account
(being funds transferred to PEA under NPMU through payment voucher)

3. Payment for Expenditure made under the Project

3.1 Expenditure Account Head Dr.
 To Bank / Cash Account
(being amount paid to against Bill No. dated)

4. Payment of Advances

Accounting for Advances to Contractors / Suppliers / Vendors

4.1 Relevant Advance Ledger Account Dr.
 To Bank Account
 To TDS Payable
 To Security Deposit
(being amount paid to after deducting tax at source through payment voucher)

Adjustment of Advance

4.2 Expenditure Account Head Dr.
 To Relevant Advance Ledger Account
(being advance amount adjusted through journal voucher)

5. **Transfer of Unspent Funds from SPMU / PEA**

5.1 Bank Account Dr.
To Inter Unit Transfer (NPMU-SPMU) Account
(being unspent funds lying with SPMU received back at
NPMU through receipt voucher)

5.2 Bank Account Dr.
To Inter Unit Transfer (NPMU-PEA) Account
(being unspent funds lying with PEA received back at
NPMU through receipt voucher)

6. **Deposit of TDS in Government Account**

6.1 TDS Payable Dr.
To Bank Account
(being tax deducted on payment to contractor , now deposited
in Government account)

ACCOUNTING ENTRIES

(In the Books of SPMU)

1. Transfer of Funds from NPMU to SPMU

1.1 Bank Account Dr.
To Inter Unit Transfer (NPMU-SPMU) Account
(being funds received from NPMU through receipt voucher)

2. Transfer of Funds from SPMU main Bank account to it's link account for PEA

Link Bank account - Inter Unit Transfer (SPMU-PEA) Dr.
To Bank Account
(To be entered in the the Accounting Software data of SPMU-HO as
funds transferred from SPMU through Payment voucher)

3. Payment for Expenditure made under the Project

3.1 Expenditure Account Head Dr.
To Bank / Cash Account
(being amount paid to against Bill No. dated)

4. Payment of Advances

Accounting for Advances to Contractors / Suppliers / Vendors

4.1 Relevant Advance Ledger Account Dr.
To Bank Account
To TDS Payable
To Security Deposit
(being amount paid to after deducting tax at
source through payment voucher)

Adjustment of Advance

4.2 Expenditure Account Head Dr.
To Relevant Advance Ledger Account
(being advance amount adjusted through journal voucher)

5. **Transfer of Unspent Funds Lying with SPMU to NPMU**

- 5.1 To Inter Unit Transfer (NPMU-SPMU) Account Dr.
To Bank Account
(being unspent funds lying with SPMU transferred to SPMU)

6. **Deposit of TDS in Government Account**

- 6.1 TDS Payable Dr.
To Bank Account
(being tax deducted on payment to contractor , now deposited in Government account)

7. **Purchase of Stock**

- 7.1 Relevant Expenditure / Activity Account Head Dr.
To Bank Account
(being amount spent towards purchase of stocks / stores)

8. **Imprest Accounting**

- 8.1 Imprest to ABC Dr.
To Bank Account
(being amount paid to ABC for incurring day-to-day expenses through payment voucher)
- 8.2 Expenditure Account Head Dr.
To Imprest to ABC
(being expenditure incurred by ABC adjusted through Journal voucher)

CHAPTER 7: FINANCIAL REPORTING, CONSOLIDATION & ANNUAL ACTIVITIES

7.1 OBJECTIVES

7.1.1 The proposed financial MIS has been designed with the following main objectives:

- (a) To provide project executing agencies with relevant information that would enable them to plan, monitor and control the various project activities.
- (b) To identify and report critical areas of information which are relevant at different levels of project executing agencies and would facilitate in decision making at those levels.
- (c) To provide a basis for evaluation of the various project activities by regular comparison of actuals with the budgets.
- (d) To provide a basis for taking remedial actions to correct any adverse trend.
- (e) To facilitate management by exception by presenting critical and select information to the top management of NPMU / SPMUs / PEAs, the World Bank and the State Governments / Central Government.

7.2 TYPES OF REPORTS

a. External Reports:

Reports that are generated for the purpose of submission to the GOI and World Bank are the External Reports. They are further classified into quarterly and annual financial reports. The formats of Financial Managements Reports (FMRs) are detailed in **Annexure IV**.

S.No.	TITLE OF REPORT	REPORT NO.	PERIODICITY	BY WHEN
Quarterly Reports				
1	Reimbursement Report	IUFR-1	Quarterly	Within 60 days of the end of the Quarter
2	Cumulative Reporting	IUFR-1A	Quarterly	Within 60 days of the end of the Quarter
3	Consolidated Reimbursement Report	IUFR-2	Quarterly	Within 60 days of the end of the Quarter

4	Details of expenditure under National Component	IUFR-3	Quarterly	Within 60 days of the end of the Quarter
5	Cumulative details of expenditure under National Component	IUFR-3A	Quarterly	Within 60 days of the end of the Quarter
6	Details of expenditure under Gujarat State Component	IUFR-4	Quarterly	Within 60 days of the end of the Quarter
7	Cumulative details of expenditure under Gujarat State Component	IUFR-4A	Quarterly	Within 60 days of the end of the Quarter
8	Details of expenditure under Orissa State Component	IUFR-5	Quarterly	Within 60 days of the end of the Quarter
9	Cumulative details of expenditure under Orissa State Component	IUFR-5A	Quarterly	Within 60 days of the end of the Quarter
10	Details of expenditure under West Bengal State Component	IUFR-6	Quarterly	Within 60 days of the end of the Quarter
11	Cumulative details of expenditure under West Bengal State Component	IUFR-6A	Quarterly	Within 60 days of the end of the Quarter
12	Reconciliation of Expenditure and Claims Made	IUFR-7	Quarterly	Within 60 days of the end of the Quarter
13	Details of Expenditure component/ Sub-component wise	IUFR-8	Quarterly	Within 60 days of the end of the Quarter
Annual Reports				
1	Sources and application of	AFS-1	Yearly	30 th September of the

	Funds			following year
2	Details of expenditure under National Component PEA wise	AFS-2	Yearly	30 th September of the following year
3	Cumulative details of expenditure under National Component PEA wise	AFS-2A	Yearly	30 th September of the following year
4	Details of expenditure under Gujarat State Component PEA wise	AFS-3	Yearly	30 th September of the following year
5	Cumulative details of expenditure under Gujarat State Component PEA wise	AFS-3A	Yearly	30 th September of the following year
6	Details of expenditure under Orissa State Component PEA wise	AFS-4	Yearly	30 th September of the following year
7	Cumulative details of expenditure under Orissa State Component PEA wise	AFS-4A	Yearly	30 th September of the following year
8	Details of expenditure under West Bengal Component PEA wise	AFS-5	Yearly	30 th September of the following year
9	Cumulative details of expenditure under West Bengal Component PEA wise	AFS-5A	Yearly	30 th September of the following year
10	Reconciliation of claims to total application of funds	AFS-6	Yearly	30 th September of the following year

The project entities will prepare quarterly interim unaudited financial reports (IUFs) in the above prescribed format which would be submitted to the bank 60 days from the end of the quarter. The SPMU will submit IUFs to NPMU for national level consolidation. The national level consolidated IUF will be based on the IUF received from each state and for the project will be shared with the Bank and will form the basis for disbursement by the Bank. The IUFs will disclose receipt and utilization of project funds (both Bank share and counterpart contribution if any) during the quarter, year to date and project to date. It will also provide expenditure forecasts for the next two quarters (based on the annual/ revised budget) for the purposes of

reporting to the Bank. The IUFRRs will be based on project accounts and will be reconciled with the project accounts.

b. Internal Reports:

Reports that are generated by the Project, which will assist in internal monitoring and in preparation of the External Reports, are Internal Reports. Internal reports are generated by PEA's and SPMU's

Following are the Internal Reports that shall be generated by the Project. The formats of these reports are enclosed vide **Annexure-4**.

S.No.	TITLE OF REPORT	REPORT NO.	PERIODI-CITY	BY WHEN	PREPARED BY	SUBMITTED TO
1	Activity wise Statement of Expenditure	IA-1	Monthly	7 th of the following month	All PEA's	SPMU
2	All quarterly reports mentioned under External Reports	IUFRR-1 to 8	Quarterly	7 th of the following month	All SPMU's	NPMU

In additions to the above reports the SPMU will submit IUFRRs (refer IUFRR-1 to 7 as given above) to NPMU for national level consolidation. These IUFRRs will be based on project accounts and will be reconciled with the project accounts.

7.3 PREPARATION OF MIS

7.3.1 The proposed Financial MIS will be generated manually. These will be based on the accounting data maintained in 'Accounting Software'. MIS reports shall be prepared by the respective PEAs in respect of the activities directly carried out by them. In addition, NPMU shall consolidate the MIS reports generated by each SPMU.

CHAPTER 8: AUDIT ARRANGEMENTS

8.1 BACKGROUND

8.1.1 Audit of accounts, statements and reports provides means to ensure accuracy and check in financial system of an organization. To ensure proper functioning of the financial system on prescribed norms in the Manual, the Project requires an exhaustive auditing arrangement. In this chapter, essential elements involved in the mechanism of conducting financial audit have been highlighted. Three types of audits would be carried out as follows:

- a) Internal Audit by an independent firm of Chartered Accountants on quarterly basis.
- b) Statutory Audit by an independent firm of Chartered Accountants on annual basis.

8.2 STATUTORY AUDIT (ANNUAL)

Annual project financial statements and accounts will be subject to audit by an independent CA firm acceptable to the Bank. The audit and reporting will be in accordance with the TOR agreed by the Bank. The annual project auditor will be appointed by NPMU to cover all the activities under ICZM i.e both at the National and state level . Statutory Audit of accounts can be done at the NPMU/SPMU level with sample audits of the PEA as required as per the auditing standards.

The statutory audit report will provide the consolidated project financial statement along with a summary of the observations and will also attach individual SPMU financial statements and observations. The object of the audit would be to provide a confirmation to the project management and to various stakeholders (such as Government of India, State Governments of respective executing states, World Bank etc.) on the accuracy of the project financial statements, compliance with loan covenants and satisfactory working of the financial management systems. . Detailed coverage of the audits is detailed in its TOR'S enclosed with the manual.

The annual project audit report and accounts will be submitted to the Bank by the 30th of September each year.

Executing Agency	Audit	Auditors	Audit Due Date
NPMU & SPMU	Consolidated ICZM Project Financial Statement & State-wise Consolidation Project Financial Statements	CA firm	September 30
MoF	Designated Account	CAG	September 30

The scope of the Statutory audit will be to conduct the audit for the entire project, i.e., NPMU & SPMU. The Auditor should carry out audits of PEA based on risk profile and other factors. The Auditor should ascertain that all external funds have been used in accordance with the conditions of the relevant legal agreements and only for the purposes for which the financing was provided and Counterpart funds have been provided and used in accordance with the relevant legal agreements. He should also ascertain that all the necessary supporting documents, records, and accounts have been kept in respect of all project transactions and the project accounts have been prepared in accordance with consistently applied Accounting Standards issued by the Institute of Chartered Accountants of India

8.3 INTERNAL AUDIT (QUARTERLY)

There will be 4 Internal Auditor's for the project, one for NPMU and one for each of three SPMUs. A firm of Chartered Accountants will perform the function of the Internal audit. These firms will be appointed by respective NPMU/SPMU's. The internal auditors would audit the NPMU/SPMU/PEA and all activities which are being funded by this project. This is a part of the inherent project design. The auditor so appointed should be an independent auditor and acceptable to the Bank. The auditor would be appointed within 3 months from project effectiveness.

The Internal Audit of accounts will be done at the SPMU/NPMU level and would also carry out the audit of the project related expenditure incurred by the PEA. The audit will be carried out in accordance with the general principles and standards of audit laid down by the Institute of Chartered Accountants of India and will include such tests and controls as the auditor considers necessary under the circumstances. The auditor shall also conduct Physical verification of assets acquired or created under the Project on a sample basis including assets provided to community groups.

8.4 AUDIT COMMITTEE

8.4.1 NPMU and each SPMU shall form an Audit Committee to be headed by the Project Director to review the audit observations submitted by the Internal & External Auditors.

8.4.2 At NPMU-level the following shall be members of the audit committee:

1. Project Director of NPMU
2. Project Director of SPMUs
3. Finance Officer of NPMU

The Audit Committee should meet at least once a quarter. The nodal officers of the PEAs under NPMU will be called for the Audit Committee meeting. The internal auditor shall also be invited for the meeting.

8.4.3 At the State level the following shall be members of the audit committee:

1. Project Director of SPMU
2. Finance officer of SPMU
3. Finance officer of NPMU

The Audit Committee should meet at least once a quarter. The nodal officers of the PEAs will be called for the Audit Committee meeting. The internal auditor shall also be invited for the meeting

8.4.2 A register (both physical & electronic form) on audit observations will be made at NPMU & SPMU in the following manner.

Observation	Date	Action	Remarks

All observations must be recorded along with date and criteria developed that the same will be acted upon within 30 days. This register will be printed out at the end of every quarter and submitted to the Audit Committee for their appraisal. Any decisions taken in the Audit Committee shall be recorded in the minutes and forwarded to the concerned office for further action. A follow-up action taken report shall be placed in the next Audit Committee meeting.

8.4.3 A summary of audit observations, replies of concerned office and the action taken by SPMU / NPMU shall be placed before the Steering Committee at least once in a year.

8.5 TERMS OF REFERENCE FOR AUDITORS

8.5.1 The Terms of Reference for the External & Internal Auditors are given as per **Annexure 5a & 5b**, respectively.

8.6 TENURE OF AUDITOR

8.6.1 The auditors would be appointed for a year and based on satisfactory performance the contract can be extended if mutually agreed.

8.7 Criteria_for selection of auditors

8.7.1 Criteria_for selection of auditors – RFP

The Evaluation Criteria for selecting the auditor is mentioned below

S. No.	Evaluation Criteria	Maximum Marks
1	Number of Audit ** assignments undertaken during last 5 years (1 mark for each assignment)	10
2	Technical approach and methodology	10
3	Work plan	10
4	Organization and staffing	10
5	Based on team proposed	
	➤ Partner	20
	➤ Audit Manager	20
	➤ Audit Staff	20
		100
	The individuals shall be rated in the following sub criteria, as relevant to the task:	
	General qualifications: general education and training, length of experience, position held, time with the firm as staff, experience in developing countries, and so forth;	30%
	Adequacy for the assignment: education training and experience in the specific sector, field subject, and so forth, relevant to the particular assignment; and	50%
	Experience in region language	20%

* The audit firms must be empanelled with AG and must in the AG list of firms eligible for major audits

8.7.2 Criteria for selection of auditors – EOI

The Evaluation Criteria for selecting the auditors is mentioned below:

S. No.	Evaluation Criteria	Maximum Marks
1	Number of Partners (2 marks upto 3 partners, 1 for each additional partner)	10
2	Presence of the Firm in Project State (5 Marks for Delhi Based Firm + 5 marks for presence in each state in case of statutory audit and 20 marks for presence in respective state in case of internal audit)	20
3	Number of Professionally Qualified Staff Between 5-10 staff - (5 marks) More than 10 staff - (10 marks)	10
4	Turnover for last five years More than 50 lacs and upto 75 lacs - 2 marks for each year More than 75 lacs - 4 marks for each year	20
5	Number of World Bank project Audits ** undertaken during the last 5 years (5 marks for each assignment, maximum eight assignments)	40
		100

*The audit firms must be empanelled with the AG and must in the AG list of firms eligible for major audits

**World Bank audit means any audit conducted by the firm for World Bank clients which include both external audit and internal audit.

CHAPTER 9: STAFFING REQUIREMENT

9.1 ACCOUNTING AND FINANCIAL STAFF REQUIREMENT

The staff required for the NPMU/SPMU will be deputed from the Government as well as outsourced on contractual basis. The Financial and accounting staffing requirement is given vide Table 9.1&9.2

TABLE 9.1 – ACCOUNTING AND FINANCIAL STAFFING REQUIREMENT AT NPMU

Designation	Number of Positions	Remarks
Chief Financial Controller	1	To be on deputation from Finance Department.
Finance Manager	1	CA with 5 years of relevant experience or M COM with 10 years of relevant experience
Financial Management Specialist	Firm	A firm of Chartered Accountants to be engaged by the NPMU.

Table 9.2 – ACCOUNTING AND FINANCIAL STAFFING REQUIREMENT AT SPMU

Designation	Number of Positions	Remarks
Chief Financial Controller	1	To be on deputation from Finance Department.
Finance Manager	1	CA with 5 years of relevant experience or M COM with 10 years of relevant experience
Financial Management Specialist	Firm	A firm of Chartered Accountants to be engaged by each SPMU .

9.2 CHIEF FINANCE CONTROLLER - CFC (1 POSTS)

The Chief Finance Controller (CFC) will be engaged at each SPMU and NPMU and shall be the overall Head of the Account Branch of the SPMU/NPMU and will report to the Project

director . He is responsible for drawal, disbursement and deposit of project funds and inter alia, will also be responsible for –

- Keeping of accounts and accounting records of the SPMU/NPMU
- Consolidation of monthly accounts after receiving the monthly reports from PEA
- Supervision of MIS and watch over compilation of financial data
- Submission of reimbursement claims to the Government of India for arranging reimbursement from the World Bank and
- Ensure adoption and maintenance of proper accounting systems and procedures with the assistance of the Senior Financial Consultant.
- To review adequate mechanism of fund flows and to keep track of un-spent balances lying with the line departments.
- In reviewing that the financial reporting formats as required are duly filled in.
- To assist in compilation of monthly and annual financial reports and in ensuring that the control systems are in place to track timeliness and regularity of reporting.
- To ensure that internal control mechanisms are adhered and to ensure that duplicate claims are not filed and that no claims are missed.
- To arrange training programme for the PEAs.

9.3 FINANCE MANAGER (1 POSTS):

In addition to the Chief FinanceController, Finance manager who will be contractual employee will render the following assistance to the Chief Finance Controller .

- To review adequate mechanism of fund flows and to keep track of un-spent balances lying with the line departments.
- In reviewing that the financial reporting formats as required are duly filled in.
- In assisting compilation of monthly and annual financial reports and in ensuring that the control systems are in place to track timeliness and regularity of reporting.
- In assisting compiling and preparation of monthly disbursement claims and ensuring that internal control mechanisms are adhered and to ensure that duplicate claims are not filed and that no claims are missed.
- To arrange training programme for the PEA's.
- He will also conduct internal check of accounts and financial transactions of the PEA's and submit reports monthly to the CFC by the 5th of the following month. He will visit the PEA's regularly following the programmes duly approved by the CFC. For this purpose, the SMU will maintain records showing the periodicity of visit to each PEA's

9.4 PROCUREMENT AND FINANCIAL MANAGEMENT SUPPORT CONSULTANT

Besides the above a firm will be hired by the SPMU in each state as well as NPMU to assist the **CFC** in performing the Financial and accounting functions . The need for the **PFMC** arises from the absence of qualified financial and procurement staff with adequate training and experience to run the Financial and procurement aspects as per the project requirement given the scale of the project . There is a need to strengthen the financial and procurement management arrangements commensurate with the proposed scale of operations and flow of funds for the project. The consultants will fill in gap by providing support of qualified professional staff to support the Financial and procurement operation of the Project in all the three states and center.

The overall financial objectives of the proposed services are:

(1) Financial management aspects of the project: To ensure that all financial management aspects (including necessary financial and accounting aspects) of the project in all the three states and center are satisfactorily handled. The consultants would provide the required support to project financial staff, including hands-on operational support, and be responsible to ensure that the services standards for financial management activities indicated in the Project Financial Management Manual are met;

(2) Training: To provide training to project financial and procurement staff and enhance skills of project financial and procurement staff in improved financial and procurement management practices.

The full time financial personnel will be provided by the firm who will be adequately supported by other members of the firm :-

S.No.	Key Professionals	Description of Services to be provided	No. of persons
1	Financial Management Specialist	Responsibility to lead the team in the national as well as state level so that Financial management aspects in project are met.	4 (1 in each SPMU and 1 in NPMU)
2	Assistant Accountant	Assistant accountants to ensure that the accounting software is satisfactorily operated in the NPMU/ SPMU and assist the project staff in data entry in the accounting software .Assist the Financial Management Specialist to consolidate the data and generate the reports as per FMM.	7 (2 in each SPMU and 1 in NPMU)