

## **TAMILNADU STATE RURAL LIVELIHOODS MISSION TERMS OF REFERENCE FOR INTERNAL AUDIT**

### **Background**

The centrally sponsored programmes for poverty alleviation that directly target poor families for creation of assets and self employment started with Integrated Rural Development Programme (IRDP) in the year 1980. A major reform took place in 1999, when IRDP was transformed into Swarnjayanti Gram Swarozgar Yojana (SGSY). Self-employment through organizing poor into Self Help Groups (SHGs) became the cornerstone of the new strategy.

Systematic review of SGSY has brought into focus certain shortcomings like vast regional variations in mobilization of rural poor; insufficient capacity building of beneficiaries, insufficient investments for building community institutions; and weak linkages with banks leading to low credit mobilization and low repeat financing. Absence of aggregate institutions of the poor, such as the SHG federations, precluded the poor from accessing higher order support services for productivity enhancement, marketing linkage, risk management, etc. Several evaluation studies have shown that SGSY scheme has been relatively successful in alleviating rural poverty wherever systematic mobilization of the poor into SHGs and their capacity building and skill development has been taken up in a process-intensive manner. In other places, the impact has not been that significant. The magnitude of the unfinished task was enormous. In this background, Government of India has restructured the SGSY as the National Rural Livelihoods Mission (NRLM), to be implemented in a mission mode across the country with financial participation of Central and State Government in the ratio of 75: 25. NRLM's mandate is to reach out to all the poor families, link them to sustainable livelihoods opportunities and nurture them till they come out of poverty and enjoy a decent quality of life. In Tamil Nadu, it is being implemented as Tamil Nadu State Rural Livelihoods Mission (TNSRLM) through Tamil Nadu Corporation for Development of Women in all 31 rural districts, in all Blocks other than those covered under World Bank assisted Pudhu Vaazhvu Project

## 2. Mission

The mission of TNSRLM is “to bring the poorest of poor and unreached families into the SHG network, establishing and strengthening the self managed institutions of the poor by enhancing their capacity and thereby promote livelihoods with incremental income at the household level through sustainable Community Based Organizations”.

## 3. Objectives

TNSRLM envisages creation of sustainable livelihoods of the rural poor living below the poverty line within a period of 5 to 7 years in the 31 rural districts of Tamil Nadu. The objective of the Mission is to “**build strong and vibrant institutional platforms of the rural poor that enable them to increase household incomes through livelihood enhancements and improved access to financial and other services**”. The focus of the Mission will also include leveraging financial resources, livelihood support, public services and to ensure their entitlements.

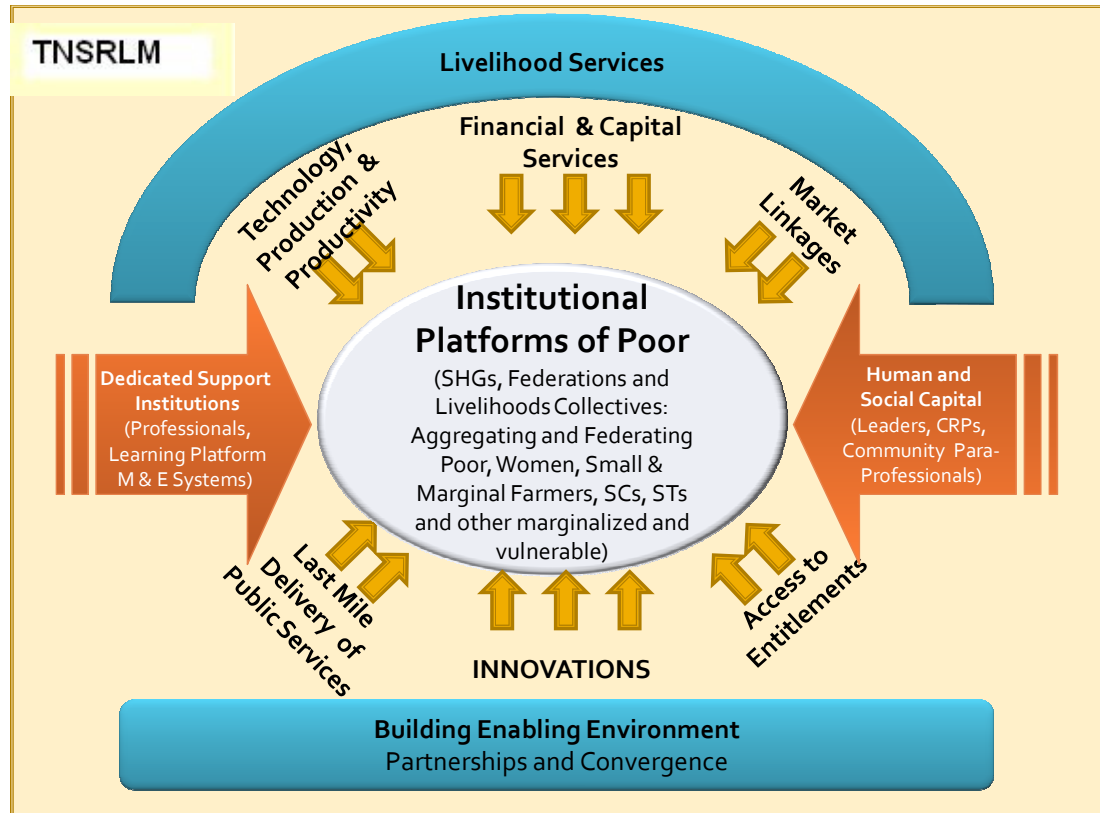
## 4. Program Strategies

The following key program strategies have been devised to achieve these objectives.

- a) **Social Inclusion and universal social mobilization:** TNSRLM would ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the Self Help Group (SHG) network in a time bound manner. It would ensure adequate coverage of vulnerable sections of the society such that 50% of the beneficiaries are SC/STs, 15% are minorities and 3% are persons with disability, while keeping in view the ultimate target of 100% coverage of BPL families.
  
- b) **Building Institutional platform of the poor.** The mission would focus on setting up Strong institutions of the poor such as SHGs and their village level and higher level federations to act as instruments of knowledge and technology dissemination, and hubs of production, collectivization and commerce.

- c) Financial Inclusion** TNSRLM would work towards achieving universal financial inclusion, beyond basic banking services to all the poor households, SHGs and their federations. TNSRLM would work on both demand and supply side of Financial Inclusion. On the demand side, it would promote financial literacy among the poor and provides catalytic capital to the SHGs and their federations. On the supply side, it would coordinate with the financial sector and encourage use of Information, Communication & Technology (ICT) based financial technologies, business correspondents and community facilitators like 'Bank Mitras'. In order to ensure affordable credit, the Mission has a provision for subsidy on interest rate above 7% per annum for all eligible SHGs, who have availed loans from mainstream financial institutions, based on prompt loan repayment.
- d) Economic Inclusion – Building sustainable livelihoods for the poor.** TNSRLM would look at the entire portfolio of livelihoods of each poor household, and work towards stabilizing and enhancing the existing livelihoods and subsequently diversifying their livelihoods. It would also provide support for marketing to the institutions of the poor. The Mission would encourage and support partnerships with public and private organizations and their networks/associations for these activities, particularly for market linkages.
- e) Skill and Placement** TNSRLM would scale up the existing skill and Placement projects through partnership mode as one of the best investments in youth, and provide impetus to livelihoods opportunities in emerging markets. For strengthening this, various models of partnerships with public, private, non-government and community organizations would be developed.
- f) Last Mile Service Delivery through community professionals** TNSRLM promotes Community professionals who have long experience as members of the SHGs to deliver the mission intervention at grass root level ,
- g) Leveraging resources through dovetailing and convergence with all schemes of Government.** NRLM would place very high emphasis on convergence with other programmes of the Ministry of Rural Development

and other Central Ministries and programmes of State government for developing synergies directly and through the institutions of the poor.



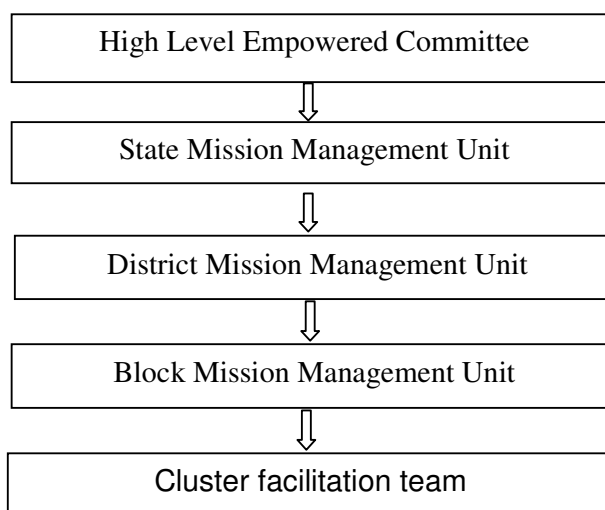
## 5. Project Area and Scope

Out of the 32 Districts in Tamil Nadu, TNSRLM will be implemented in all Districts except Chennai. In addition to NRLM funds, intensive investments will be made as part of the World Bank supported NRLP in 16 Blocks in 4 Districts in Tamil Nadu, out of the total of 385 blocks, 120 blocks have been covered under the Pudhu Vaazhvu project. The remaining 265 blocks will be covered under TNSRLM in a phased manner over a period of three years from 2012-13. The Mission implementation in Phase I commenced from 2012-13, in Phase II from 2013-14 and in Phase III from 2014-15. The implementation of the programme will be for seven years from 2012-13 to 2018-19. The Mission activities are now in 3rd year of implementation.

## 6. Phase wise implementation Plan of TNSRLM (NRLM and NRLP)

S.No	Units to be Covered	Year 1			Year 2	Year 3
		NRLM	NRLP	Total		
1.	Districts	11	4	15	31	31
2.	Blocks	44	16	60	170	265
3.	Village Panchayats	1865	458	2323	5814	8354

## 7. The implementation structure of the Mission will be as given below:



### 7.a. High Level Empowered Committee

6. A High Level Empowered Committee (HLEC) headed by the Minister in-charge of Rural Development has been formed to lend policy level support to the mission implementing agency. This committee is headed by the Hon'ble Minister for Municipal Administration and Rural Development and includes the Chief Secretary and Secretaries of select departments, representatives of organizations and departments which can contribute to the Mission. The Empowered Committee will strive for better convergence with the Government departments/undertakings and it will also monitor the implementation of the Mission.

### 7.b. Support structure at the state level:

#### 7.b.1. Apex Body

Government of Tamil Nadu has nominated TNCDW as State level Mission implementing agency. TNCDW is a body registered under the Companies Act,

1956. The apex body of this organization is the Board of Directors. The implementation of the Mission activities will be solely guided and monitored by the High Level Empowered Committee. (HLEC) The CEO, TNSRLM will place the status report on the Mission activities periodically to the Board of Directors for information. The observations of the Board will be placed in the HLEC.

#### **7.b.2. State Mission Management Unit**

At state level TNSRLM has a State Mission Management Unit (SMMU) which includes a team of multi disciplinary experts/officials at different levels. Managing Director, TNCDW has been nominated as Chief Executive Officer (CEO) of TNSRLM.

**7.c. District Mission Management Unit** – At district level a broad-based District Advisory Committee, chaired by the District Collector, with representatives from the institutions of the poor, facilitating departments and NGOs that work with them in a significant way as members, may review TNSRLM activities and provide guidance for improving and developing subsequent plans.

District unit is headed by a Joint Director cadre officer from the Department of Rural Development, and has a multi disciplinary team under him. This team is responsible for all activities in the District and report to State Mission Management Unit (SMMU)

#### **7.d. Block Mission Management Unit -.**

There will be a Block Programme Manager carrying on work at the block level taking care of convergence and monitor the cluster level field staff in Mission implementation. Block team will report to DMMU

#### **7.e. Cluster facilitation unit**

For close monitoring, clusters are formed in each Block and cluster is formed for every 10-15 village Panchayats based on geographical area. Each cluster will have one Cluster Coordinator and four Facilitators. They will be at the cluster reporting to the Block Programme Manager.

The principal responsibilities of the block and cluster structure would include:

- Identification of target poor
- Mobilizing all poor households into SHG network

- Strengthening of existing SHGs and formation of new SHGs
- Building the institutions of the poor at various levels
- Building capacities of the institutions of the poor and social capital
- Financial inclusion and
- Assistance for livelihood activities.

### 7.f. Community Level

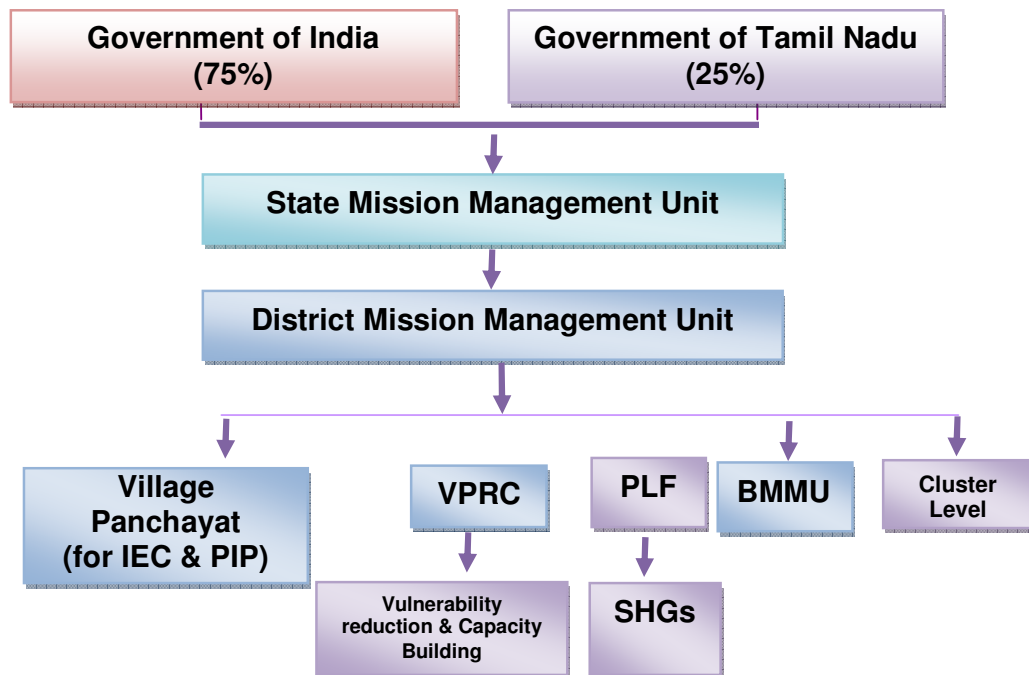
At community level, the Mission will be implemented through community based institutions like VPRC, PLF, SHG, CLG.etc.

### 8. Annual Action Plan:

Every year, the Mission will prepare Annual Action plan and submit to Government of India through Government of Tamil Nadu. Based on the approval ,the funds towards Government of India share (75%) will be released in two installments. Government of Tamil Nadu will release its State share (25%) based on receipt of Government of India share

### 9. Fund flow arrangements:

Fund Flow arrangements under TNSRLM are as follows:



Based on Annual Action Plan and requirement of funds from Districts, quarterly funds are being transferred to districts and expenditure report from districts are obtained monthly. Community investment funds to CBOs like VPRCs, etc. are being released in installments based on achievement of key milestones. Funds transferred to Districts are treated as advances and funds transferred to CBOs are treated as Project expenditure.

#### 10. Brief description of components of the Project:-

Component	Description
<b>A</b>	<b>Institution and Human capacity building</b>
<b>B1</b>	<b>State Rural Livelihoods Mission</b>
<b>B2</b>	<b>Institution Building and Capacity Building</b>
<b>B3</b>	<b>Community Investment Support</b>
<b>B4</b>	<b>Special Programs</b>
<b>C</b>	<b>Innovation and Partnership support</b>
<b>D</b>	<b>Project implementation support</b>
<b>E</b>	<b>Infrastructure &amp; Marketing</b>
<b>F</b>	<b>Interest subvention</b>
<b>G</b>	<b>RSETIs</b>
<b>H</b>	<b>MKSP</b>
<b>I</b>	<b>ASDP</b>

#### 10.b. Towards Mathi program

Apart from implementation of TNSRLM activities by TNCDW it has its own program called Mathi where SHGs are formed, trained, arranges bank linkages for SHGs and PLFs, facilitating marketing for the products produced or manufactured by SHGs. Convergence with various departments, etc. It has headquarters in Chennai in the office where TNSRLM is functioning and also in districts in same office where TNSRLM activities are functioning. CEO, TNSRLM is the MD of TNCDW and Project officer, TNSRLM is the implementing officer of TNCDW at district level. From 2012-13, the offices of TNCDW redesignated as TNSRLM offices except in Chennai where there is no TNSRLM activities, TNCDW and TNSRLM offices are same. Due to implementation of TNSRLM, the activities of TNCDW are not much and has come down drastically in State office and District offices. The auditors should audit the TNCDW activities and report separately.

#### Fund flow arrangements under Mathi

Mahalir Thittam project is funded by the State Government under Part I scheme by regular budget allocation under the Rural Development and Panchayat Raj department every year. The Commissioner of Rural Development and Panchayat Raj draws funds from Treasury and disburse to TNCDW. TNCDW in turn will release funds for the scheme implementation and salary and office administration to PIUs



## **11. Objectives of the Audit**

The objectives of the internal audit are to:

- (i) enable the auditor to express a professional opinion on the effectiveness of the overall financial management and procurement arrangements;
- (ii) whether the overall financial management and arrangements including the system of internal controls as documented in the Project Financial Management Manual (FMM), Community Operations Manual (COM), the Project Implementation Plan (PIP) are in practice, effective and adequate, commensurate to the nature of the operations and
- (iii) provide project management with timely information on financial management aspects of the project, including internal controls and compliance with financing agreements, to enable follow-up action.

In addition, it is expected that internal audit should play a role in assisting management with fraud-related issues, including the prevention, detection and investigation of fraud as part of “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **12. Coverage and Standards for the Audit:**

The audit would cover State Mission Management unit (SMMU) and 31 District Mission Management units

The audit would also cover all consultancies or other contracts that may be entered into by the SMMU and DMMUs.

The internal audit should be carried out in accordance with the Auditing & Assurance Standards prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the auditor considers necessary under the circumstances.

## **13. Scope**

Specific areas of coverage of the audit will include the following:

### Project level (SMMU and DMMU)

In conducting the audit, special attention should be paid to assessing whether adequate controls have been established and complied with to ensure:

- (a) All project 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;
- (b) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via Interim Financial Reports (IFR). To ascertain that IFR are properly filled up and submitted on time to NMMU by SMMU and to SMMU by DMMU
- (c) Project assets are adequately safeguarded and used solely for their intended purposes; and

### Coverage of audit

- a) An assessment of the adequacy of the project financial management systems, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls, and any needs for revision; level of compliance with established policies, plan and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating controls in areas where they are lacking; and verification of assets and liabilities.
- b) Efficiency and timeliness of the funds flow mechanism at the DMMUs and BMMUs and to the Community Institutions. The auditors are required to verify and comment upon the flow of fund from TNSRLM to CBOs
- c) Verification & certification of IUFR submitted by DMMU to SMMU and further to the MoRD.
- d) Method of remedying weak controls or creating them where the controls do not exist.
- e) Whether the fund/ tranche released to the Community Institutions are properly approved by the officer in DMMU having the necessary authority, and the conditions (triggers/ graduation criteria) for tranche release (as provided in the COM for various funds) have been complied and are in line with the financing agreement, with the World Bank.
- f) Whether the DMMU accounting for the tranche release properly in the subsidiary records and is monitoring the receipt of periodic reports and utilization certificates from the CBOs & systems to follow up on overdue reports are adequate. Quantify (number and amount) of the funds transferred to the Community Institutions for which the reports and/or UCs are overdue.
- g) Whether the accounts of the project are compiled in a timely manner and the expenditures consolidated on a monthly basis at the DMMU level and submitted to SMMU.
- h) An assessment of compliance with provisions of financing agreements, especially those relating to procurement, accounting and financial matters.
- i) Goods, works and services financed have been procured in accordance with the TNSRLM procurement guidelines, financial & procurement manual of the project and financing agreements;
- j) All necessary supporting documents, records, and accounts of all project activities have been kept in respect of all project activities and that clear synchronizations exists between accounting records, accounts books and the periodic financial reports (internal and external i.e. Interim Financial Reports)
- k) Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets and verification of assets created out of the project and comment on its utilization;
- l) All funds received under the project have been used in accordance with the financing agreements, with due attention to economy, efficiency and effectiveness, and only for the purposes for which the financing was provided;

- m) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.
- n) Inter unit fund transfers and Bank reconciliations have been carried out on a monthly basis.
- o) Internal auditors to summarize key issues and risks from a review of a sample of village audit reports and comment on actions taken by DMMU
- p) The auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.

**14. Data, services and facilities to be provided by the Client:**

- a. All the project documents, copy of agreement and relevant papers needed for Audit will be provided by the TNSRLM.
- b. The auditor should be given access to any information relevant for the purposes of conducting the audit. This would normally include all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor., The project will provide relevant documents such as Financial Management Manual, Procurement Manual and approved State Perspective and Implementation Plan (SPIP) and Annual Plan of TNSRLM., if any, required by the auditor.
- c. A one day workshop will be organized by the TNSRLM for providing information about the TNSRLM activities and it should be attended by all the members of audit team.
- d. Active support from the officials at SMMU/DMMU levels.

**15. Period, Timing and coverage of Internal Audit**

The Internal Audit of SMMU & DMMU will be for three years for the financial year from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015, from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 and from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017. Eventhough the period of assignment is for three years, the contract will be extended to every year subject to satisfactory performance.

The selected firm(s) will submit in advance and agree with the SMMU and DMMU a 'schedule of audit'.

The auditor should become familiar with the TNSRLM and TNCDW activities and with the relevant policies and guidelines of the TNSRLM (including those relating to procurement and financial management and reporting).

The audit will be carried out on a quarterly basis.

**16. Reporting**

Quarterly Reporting & Annual reporting : The Auditors will provide a quarterly report for the units audited (a summary of the key findings, implications and recommendations for each District ) to enable the Project Management to take timely action. The report should be discussed and agreed with the auditable units and should be structured in a manner giving the observations, the implications of the observations, the suggested recommendation and the management comments/ agreed actions. The audit observations should be supported by

instances and quantified, as far as practicable. Four quarterly audits reports and one annual report will be provided each year.

The audit reports should be submitted within 30 days of the completion of the quarter. The reports will be directed as under –

- The Project Management Letter to the Chief Executive Officer.
- The individual audit reports to each of the auditable unit to the head of the unit.
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In addition the internal auditor should provide an Executive Summary highlighting the critical issues which require the attention of the CEO and the Board of TNCDW and the status of actions on the previous recommendations

Format of the Management Letter: The Management Letter will inter alia have the following sections -

- Objectives of the audit;
- Methodology of the audit;
- Status of implementation of the financial management system;
- Status of compliance of previous audit reports, including major audit observations pending compliance;
- Key areas of weaknesses that need improvement; and
- Recommendations for improvements

#### Procedure of Conducting Audit at DMMU and SMMU

1. The auditor should give detailed work plan for conducting audit DMMU to SMMU and the concerned Office.
2. The auditor should inform DMMU and SMMU before the start of audit.
3. The auditor should give detailed work plan for conducting the audit.
4. The audit questionnaire and audit work sheet shall be signed by the audit team member and officials of DMMU./SMMU
5. Feedback as necessary can be given to the management on the outcome of the Audit from time to time. Information about any discrepancies can be shared with the management for rectification/clarification.
6. During the audit, the internal Audit team shall interact with management staff for any clarification.
7. The auditor shall interact with the DMMU /SMMU management before furnishing of any report.
8. The auditor should inform SMMU and the concerned office before start of the audit at DMMU and furnish the detailed plan of the audit. The plan shall be finalized in consultation with the management at SMMU level.
9. The detail approach and methodology of audit should be provided by the auditor themselves in the Request For Proposal (RFP).

#### **17. Composition of review committee and review procedure to monitor consultants work**

The proposed assignment will be reviewed and monitored by a Review Committee constituted by SRLM. This committee will be constituted to interact with the Auditor, review and monitor the progress of the assignment on a quarterly basis and take further remedial measures on the discrepancies pointed out in internal audit.

### 18. Expected No. of man days required and Team Composition of audit firm:-

It is estimated that no. of days required to do internal audit per district /per quarter will be 2 days per team consisting of one team leader and one team member for TNSRLM and for TNCDW.. The total no. days required to do internal audit for 31 districts will be 124 days and for audit of State unit and Chennai district, the no of days required will be 5 days per quarter including consolidation of reports of District units & State unit, report preparation etc. Hence totally around 129 man days are required per quarter. To enable the audit firm to complete the audit within 45 days from the date of completion of each quarter, the number of teams required will be 2. (team consisting of one audit team leader and one team member)

#### KEY PERSONNEL

The list of key personnel and whose CVs and experience would be evaluated is as follows :

S.No	Key Professionals	Description of Services to be provided	Experience	No. of persons	Total Expected Man days (TNSRLM)
1	Partner/ Audit Manager	Overall coordination, & planning, team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 7 years experience as a partner with expertise in the area of statutory audit planning, execution and reporting.	1	5
2	Audit Team Leader	Responsibility to lead the audit teams in the field, planning and execution of the audits, discussion with heads of offices at district / state units and report writing and finalization.	Qualified Chartered Accountants with at least 3 years experience in Statutory audit with ability to lead the team & expertise in the area of statutory audit planning, execution and reporting.	2	62
3	Team member	Audit of SMMU and Field level audit of DMMU,	CA (Inter) with 2 years of experience in Accounting ,audit and report writing	2	62
<b>Total Expected Man days</b>					<b>129</b>

The audit firm should provide CVs of key personnel who are expected to be engaged in audit work for evaluation purpose

## **19. Pre Qualification Criteria for short listing of Internal Audit firm**

- a) C.A. firm expressing interest should have been in existence for at least 10 years and have branches in Tamil Nadu.
- b) The firm shall have atleast 3 Fellow/Associate Chartered Accountants as partners
- c) C.A. firm should have an annual turnover of Rs 50 lakhs and above in each of the last three financial years
- d) The firm should have handled internal audit of atleast 10 Government Companies/Boards/Societies and shall be familiar with Government Rules & Regulations
- e) CA firm should have been empanelled with CAG
- f) The firm shall not be involved in any legal cases in professional matters with its clients or others.

## **20. Selection of Audit firm**

Audit firm will be selected on Quality and Cost based selection (QCBS) of TNSRLM procurement guidelines

## **Annexure to Main Audit Report**

### **Part A: Serious Observations**

*In this part, give details of serious audit observations such as ineligible expenses, major lapses in internal controls, systemic weaknesses, procurement procedures not followed etc.*

### **Part B: Other Observations**

*Observations that are not serious in nature, but nonetheless require the attention of the Project or the GP should be detailed in this part.*

### **Part C: Executive Summary to the project and Suggestions/Recommendations (based on summary of various SHG Federations)**

*Provide an Executive Summary of the observations in Part A and B along with suggestions/recommendations. Only those observations that are dealt with in either Part A or Part B should be included in this section Provide specific recommendations on internal control and systemic weaknesses.*

**SUGGESTED QUESTIONNAIRE FOR SMMU & DMMU**  
*(Please provide brief details of divergence from procedure)*

1. Whether the Office has maintained proper records showing full particulars, including quantitative details and location of Fixed assets?
2. Whether all Assets including current assets like inventory have been physically verified during the quarter?
3. Whether the cash book is properly maintained and whether it tallies with computerized system of accounting?
4. Cash balance as on the date of audit.
5. Whether expenditure has been made as per the delegation of power. Details of any divergence should be mentioned.
6. Whether bank book is properly prepared and whether the balance as per the pass book confirms with the balance as per the bank book.
7. Whether the books of accounts are reconciled between DMMU/BMMUs and with the SMMU books. If no, then reason and amount of such difference.
8. Whether CIF disbursed is properly entered in the CIF register, other details like number of CBOs,, amount of CIF, Utilization certificate etc.
9. Whether any advance is given to the staff. If yes, whether it is properly sanctioned and settled within 15 days.
10. Whether proper internal control system is followed.
11. Whether the office is paying TDS regularly and on time.
12. Whether any fraud on or by any office or person has been noticed or reported during the year. If yes, the nature and amount involved.
13. Whether log book of usage of Vehicle or Vehicle hiring has been properly maintained or not.
14. Whether stock register is maintained. If yes, last entry of goods number/voucher page number of stock register and particulars of goods.
15. Whether 100% vouching is done. If yes, total number of voucher, amount, component wise expenditure and budget wise variance.
16. Whether all expenditure is made as per the budget. If not, the amount of variance.
17. Whether inter district reconciliation is made. If yes, whether there is any difference and reason for such difference.

Chief Executive Officer