NCRMP Phase-II

Financial Management Manual

Credit No. 5693-IN

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Chapter 1

1. Background and Context:

1.1. The Government of India has initiated National Cyclone Risk Mitigation Project (NCRMP) with a view to address cyclone risks in the country. National Disaster Management Authority (NDMA) under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs in the coastal areas. The project is funded by the World Bank as an Adaptable Programme Loan (APL) wherein it is implemented in Phases with the next phase based on experiences of the previous phase. NCRMP Phase I consists of States of Andhra Pradesh (A.P.) and Odisha. These two States are also covered under NCRMP (Additional Financing) which was funded in view of gaps felt while handling cyclone Phaillin. The States of Goa, Gujarat, Karnataka, Kerala, Maharashtra and West Bengal are part of NCRMP Phase II.

1.2. The project has four principal components as follows :-

Component-A: Last Mile Connectivity (LMC): The objective of this component is to reduce the vulnerability of coastal communities by addressing the existing gaps in dissemination of warnings before during and after cyclone and other hydro-meteorological disasters. This component will assist in the installation and operation of Early Warning Dissemination System (EWDS) to the last mile allowing the State and/or district/sub district level control centre to send communication directly to communities based on latest technological systems prevalent in Global System for Mobile Communication (GSM)/Code Division Multiple Access (CDMA), Radio and Satellite based technologies. It will also help in strengthening the capacity of officials and village representatives in operating, maintaining and using these EWDS equipments in early warning, preparedness and response of cyclones and other hydro-metrological disasters. This component of project would be implemented by participating States in consultation with Project Management Unit (PMU) NCRMP NDMA.

Component-B- Cyclone Risk Mitigation Infrastructure (CRMI): The objective of this component is to increase preparedness and reduce vulnerability of coastal communities through strategic infrastructure investments such as multipurpose cyclone shelters, up-grading of approach roads, construction of bridges, underground electric cabling, upgrading saline embankments and bunds. The implementation of this component will help in improving the capacity/access to emergency shelter, evacuation routes and protecting against cyclone and hydro metrological hazards. The sub-component of underground cabling has been taken up based on experience of project implementation of NCRMP-I and management of cyclones

Phallin and Hudhud which struck the States of A.P. and Odisha, this IDA credit being Adaptable Programme Loan from the World Bank.

Component C - Technical Assistance for Disaster Risk Assessment and Recovery and Understanding and Strengthening Multi-Hazard Risk Management. The objective of this component is to improve quality of available information on multi hazard risk for decision making, and strengthen Multi-Hazard-risk management at national level including carrying forward the studies of NCRMP-I by funding them further. The brief details are as under:-

a) Coastal Multi-hazard Risk Modelling and Assessment: The objective of this component is to help understand risk and vulnerabilities better, and prepare key institutions for addressing them effectively across all coastal States and UTs. The understanding of risk and vulnerabilities from NCRMP I will be carried forward through improved probabilistic risk modelling allowing for modelling of multi-hazard and cascading impacts of disasters along coastal India.

b) Strengthening Emergency Recovery Capacity. This component will finance the implementation of the key findings from the Capacity building study undertaken by NIDM in NCRMP I focussed on risk and damage assessment. The findings will feed into developing training modules that will focus on strengthening the capacity of State disaster responders.

c) Enhancing the Capacity for Disaster Risk Management and response in non-coastal states. This will entail the following

i) Multi-hazard Risk Assessment: This will finance a systematic assessment of current and future disasters and climate risks with added focus on urban areas in non-coastal States. A web-based GIS platform will be established to store and manage the data gathered. Modelling will also be undertaken on a pilot basis for high risk flooded areas and potentially high risk areas to factor in cascading multi-hazard disaster impacts.

ii) Pilot physical structure assessment: Entailing pilot initiative to train engineers on assessment of physical vulnerability of identified public buildings and critical infrastructure, a comprehensive multi-hazard check list and accepted assessment guidelines will be prepared.

iii) Strengthening capacity for disaster response: This would entail the strengthening of the capacity of emergency responders (local governments, first responders, fire fighters and other agencies involved in disaster response) in selected urban areas that are considered highly vulnerable to the impacts of earthquakes or landslides. It will include: (i) operating, maintaining and regular use of the EWDS equipment by officials and village representatives; and (ii) of communities in disaster preparedness and response through disaster management plans, arranging mock drills etc. It will also facilitate upgrading search and rescue equipmentôs coupled with proper training in the use and deployment of these tools.

d) Hydro-meteorological Resilience Action Plans: This sub-component will assist States in preparing resilience action plans that will focus on extreme weather events, develop technical and financial resilience solutions/recommendations for sectors impacted by disasters such as agriculture, livelihood, energy, infrastructure etc. and focus on urban hotspot areas in helping develop urban resilience plans.

e) Design of a National Seismic Risk Mitigation Program. This sub-component would assist MHA and NDMA in the design of a comprehensive National Seismic Risk Mitigation Program. This will encompass activities that will strengthen risk assessment capabilities, raising public awareness, strengthening of building codes and land use regulations, piloting retrofitting of critical infrastructure, and developing risk financing framework.

Component D: Project Management and Implementation Support. This will finance incremental operating costs of Project Management Unit (PMU) and the State PIUs. In addition, component will include consultancies required for preparation and supervision of specific activities, trainings, exposure visits and knowledge exchange program.

1.3. The NCRMP-Phase-II would be coordinated by the central Project Management Unit (PMU) set up at NDMA which is already handling NCRMP I and NCRMP (AF). The participating States of NCRMP II shall set up their respective Project Implementation Units (óôPIUsôô).

1.4. The PMU shall coordinate with MHA, World Bank, CAAA and other external agencies involved. The PIUs shall coordinate with the various line departments of the State Government which will be finally responsible for execution of Project work.

2. Scope of the Financial Management Manual.

2.1. The PMU and the PIUs (State PIU) are required to maintain financial management system including adequate accounting and financial reporting to ensure that they can provide to the Bank and Government accurate and timely information regarding Project resources and expenditure.

2.2. This Manual has been designed to provide guidance on matters relating to financial recording and reporting for NCRMP such that financial management for the Project is in compliance with the Project requirements. Accordingly, this manual provides the principles of financial management including standard reporting formats.

2.3. This manual does not prescribe procedures to be complied by other involved agencies such as the NDMA, the MHA, the World Bank, or CAAA. It also does not specify rules and procedures that the participating units are required to follow as part of routine Government procedures. For such rules, the participating units are required to refer to respective guidelines as are applicable to them. The State shall continue to use their existing system for budget and account classification.

3. Financial Management and Operating Environment:

3.1. Odisha has a dedicated autonomous Odisha State Disaster Management Authority (OSDMA) for tackling disasters. It will act as PIU while in A.P. PIU has been set up at the Government level in the disaster Management Department. Similarly for NCRMP II Gujarat State Disaster Management Authority (GSDMA) will act as the PIU and in other five states PIU shall be set up as an administrative department of the State Government.

4. Staffing at the PIUs and the PMU.

4.1. The Project Management Unit (PMU) set up at NDMA which is overseeing and co-ordinating the implementation of NCRMP I and NCRMP (AF) would be responsible for NCRMP II as well. This PMU shall be headed by Project Director. To discharge the finance function of the PMU, a qualified accountant along with other support staff shall be appointed. The qualified accountant along with other staff of the finance section will constitute the finance department of the PMU. The finance department of PMU shall be responsible for:

- Overseeing the financial management arrangement of PIUs.
- Calling for budgetary requirements of PIUs under the Project, prepare budget estimates for PMU and consolidating the annual budget for NCRMP II.
- Reviewing the financial progress of the Project and analysing and delay in budgeted activities.
- Considering and allocating resources among the States under different components of the Project.
- Consolidating financial reports submitted by PIUs i.e. quarterly Interim Unaudited Financial Reports (IUFRs) and Project Financial Statements (PFSs) and submit these to World Bank in time.
- Facilitating the smooth and timely flow of funds to all PIUs and providing overall guidance to PIUs in respect of financial management issues including monitoring of expenditures audit and internal control.
- Conducting training programme for PIUs, regularly on financial management matters.

- Coordinating with the PIUs in conducting timely audit of accounts of the Project and consolidating the reports.
- Appointment of Internal Auditor for the PMU, approving the Internal Audit plan for NCRMP II and reviewing the results of internal audit for NCRMP II.
- Appointment of external auditor for PMU and PIUs (where applicable).
- Providing such information as is required by NDMA to interact with other involved agencies i.e. CAAA, MHA, World Bank etc.

4.2. The Finance wing of the PIU shall be staffed by a qualified Accounts Officer. He would report to the Project Director of the PIU and shall have adequate number of support staff (3-4). In addition, he shall also consider the observations of the Internal Auditor/External Auditor while monitoring the finance function. The PIU shall be responsible for the following functions:

- Preparing the budget estimates for submission to PMU and monitor the use of funds according to the approved budget.
- Managing the bank accounts opened for NCRMP II (where separate bank account is opened for the Project) and facilitate smooth and timely flow of funds.
- Complying with the various procedures and guidelines laid down for administering the financial management system of NCRMP II.
- Processing and making payments on account of expenditure incurred under NCRMP II (where payments are made from separate bank account opened for NCRMP II).
- Completing all necessary documentation and accounting every transaction properly.
- Providing timely financial reports to PMU and State Government.
- Ensuring timely conduct of internal audit and statutory audit of accounts.
- Reviewing the financial progress of the Project and analysing for any delay in budgeted activities.
- Appointment of Internal Auditor.
- Appointment of External Auditor (where applicable)

Chapter 2 - Budgeting

2.1. Preparation of the Annual Budget

1. Preparation of a proper budget plays an important role in the timely implementation of any project and so will it be for NCRMP II. The State`s PIUs shall ensure effective budgeting exercise each year to facilitate timely implementation of the various components of the Project. For this purpose, the PIUs shall estimate requirements of the funds for specific tasks/objectives under various components of the Project before seeking funds from the Government of India. At the time of estimating the requirements of the funds, the PIU shall consider the priority and importance of work based on the Project Guidelines and proposals submitted. Every effort should be made to link the budget with physical targets. The budget would be consistent with the annual procurement plan.

2. The budget for NCRMP II shall be provided by MHA under its annual plan budget. A separate plan head has been provided for NCRMP II under NDMA in the annual budget of the MHA. The State Governments shall make 100% provision in their budget including the central share.

3. The States will make provision against appropriate budget head/sub-heads under their budget for operationalising the budget received from Government of India and that of State share as per instructions of Ministry of Finance, Government of India.

2.2. Administrative procedures

4. The PIUs shall prepare their budgets after due approval of the Finance Head and the Project Director of the PIU. These budgets shall be forwarded to the state finance department for making provision in the state budget and also to the Project Director at the PMU for making provision in the MHA budget. The PMU shall make an estimate of its annual budget. It shall collate the budgets received from the PIUs and its own operating budget. The Finance Head at PMU shall prepare the consolidated budget under NCRMP II and submit it to the Project Director, PMU for forwarding to the NDMA/MHA.

2.3. Timelines

5. Financial year shall commence on the 1st day of April of each year and end on the 31st day of March of the following year. The PIUs shall forward their budgets, i.e., Revised Estimates for the year and Budget Estimates for the ensuing year by August 31st of every year to the PMU. The PMU shall forward the consolidated budget to the NDMA/MHA by September 30th

of every year. Other conditions required for re-appropriation or changed requirement should be continuously followed by PMU, NCRMP at NDMA.

2.4. Formats

6. The budget shall be prepared such that there is a direct correlation between the budget and the physical targets. Additionally, the PIU and the PMU shall prepare an annual budget as per respective state and GoI guidelines. The PIU and PMU are expected to refer to applicable rules for the preparation of the budget and these have not been separately elaborated in this manual. The approved budget based on NDMA proposal will be released by MHA to respective state treasury. State treasury will release budgets to the administrative department or directly to the executing line departments (based on administrative department proposal) as per the state rules. The PIUs at the state will consolidate annual budgetary requirements of the executing line departments and other independent agencies (for underground cabling work). PIUs will then send the consolidated budgetary requirement to the state finance department for making necessary provision in the state annual budget.

The format for preparation of budget estimates by PIU has been provided in **Annexure I.**

The format for preparation of Consolidated Budget by PMU has been provided in **Annexure 2.**

2.5. Review and revision to budgets

7. The PIUs and PMU shall monitor the fund utilisation on quarterly basis through the Interim Unaudited Financial Reports (`IUFRsô). It is herein clarified that the basis of this reporting is actual expenditure by the PIUs and the PMU and not the release of funds to the PMU and the PIUs.

8. Based on the status of expenditure incurred during the first six months, the PIU shall submit a revised budget by August 31st of every year. The PMU shall in turn make a revised budget for its operations. Based on the feedback received, revised budget for the NCRMP IIshall be prepared and submitted by the PMU, to MHA/ NDMA by September 30th of every year.

9. While reviewing the budget for Year 2 and beyond, consideration would be paid to the variations in achieving the budget targets for the prior year/years.

2.6. Re-appropriations of budget

10. The PIU and the PMU are authorised to re-appropriate the budget in between the activities under the same component. However, all such cases of re-appropriation shall be pre-approved in writing by the Head of the PIU and supported by sufficient and reasonable explanation. Such re-appropriations also require a written pre-approval from the NCRMP II Project Director in the PMU. However, all these re-appropriations would be got concurred from MHA before their operationalisation.

2.7. Disclosure of Annual Budget

11. Annual approved budget for the project as a whole as well individual budget of each PIU will be disclosed on the website of NCRMP II.

2.8. Commitment charges

12. The Project agreement between the borrower and the World Bank usually provides for levy of commitment charges implying that if there is delay in implementation of the Project, the borrower has to pay a Commitment Charge on the un-drawn credit amount. The PIUs and PMU should ensure that effective budgetary exercise is followed leading to proper utilization of the credit and thus avoid payment of commitment charges.

Chapter 3

3.1. Flow of funds and disbursements.

1. The NCRMP shall be implemented by the Government of India through external assistance of World Bank. Therefore, the Project attracts the provisions of GoI in respect of externally aided Projects.

2. As part of this Project, the loan shall be taken by the Centre and assistance to the States shall be provided as Grant-in-aid. For this purpose, expenditure under Component A,C and D will be funded 100% by the Centre and Component B shall be funded 75% by the Centre with rest 25% contributed by the participating States.

3. According to the general principles relating to Grants-in-aid to State Governments/UTs laid down in the General Financial Rules, 2005 (Rule 215 (2)) every Centrally Sponsored Scheme (CSS) should be treated as a Project with time bound targets for monitoring, midterm evaluation and detailed impact studies. Apart from making provisions in budget and releasing funds, Ministries/Departments should establish a mechanism to ensure that the funds earlier released have been effectively utilized and that the data and facts reported by the State Governments or Union Territories relating to physical and financial performance are correct. Before releasing further funds, it should also be ensured that the State Governments/UTs have the capacity to actually spend the balance from the previous years and the releases during the current year. Attention should be focused on the attainment of the objectives and not on expenditure only. A mechanism for avoiding release of large part of funds towards the end of the year should be devised and incorporated in the Scheme design itself. An evaluation mechanism should also be built into the Project providing for concurrent reviews and applying mid-course corrections where necessary. A post-completion review of every CSS should be undertaken by State Governments/UT implementing the Scheme, highlighting time and cost overruns, if any, and suggestions for formulating and implementing future schemes. This review should be kept in view while formulating new CSSs.

4. According to Rule 239 of the GFRs, 2005 which pertains to the fund flow for Central or Centrally Sponsored Projects financed from external aid, the process of disbursement of such claims by the Funding Agency shall be the same as explained in Rule 237 (i) (a) of the *GFRs*

Refer Annexure 3 for details (This Rule explains the procedures laid down for withdrawal of funds from the loan or grant account, namely Reimbursement procedure). The Ministry shall get funds when demands for grants are passed in the Parliament and advised by the Budget Division of the Ministry of Finance.

5. Disbursement from the World Bank will be based on quarterly Interim Financial Reports (IUFRs), which will provide information on expenditure for the quarter, financial year till date and project till date.. Therefore, the project will follow a system of "Report Based Disbursement". Please refer to Annexure 16. Circular dated September 2, 2008 of Aid. Accounts and Audit Division, Ministry of Finance."

The various stages of flow of funds and disbursement have been explained as follows:

3.2. Receipt/replenishment of money from the World Bank in Special Account.

6. Disbursement from the World Bank will be on the basis of quarterly IUFRs. Each PIU will prepare a quarterly IUFR and submit to the PMU within 25 days of end of each quarter. The PMU will prepare a consolidated IUFR for the project and submit it to the World Bank no later than 45 days of end of each quarter. Please refer to format of IUFRs in Annexure 13, Annexure 13A and Annexure 13B. Reconciliation between IUFR and annual audited financial statements of the project will be carried out annually and ineligible expenses will be recouped in subsequent disbursements.

3.3. Flow of Funds.

3.3.1. Budgeting of funds for NCRMP.

7. Based on the annual requirement for the NCRMP, a budgetary provision shall be made in the NDMA/MHA budget under Demands for Grants for Ministry of Home Affairs.

3.3.2. Release of funds to PMU and PIU.

8. On the basis of the rules set forth in Section 3.4, the PIU and the PMU (for its own operating expenses and areas within NCRMP) shall prepare formal statements of expenditure (with supporting annexure). These statements shall be provided to the Head of Finance at the PMU for review.

9. The Head of Finance at the PMU shall use these statements to prepare a draft sanction order for release of funds. The sanction order, with recommendation of Project Director shall be forwarded to DDO at the PMU and PAO NDMA after getting approval of competent authority

at NDMA . NDMA shall perform the necessary administrative tasks for releasing the funds to the PMU and the States following required formalities.

10. In view of the instructions of Ministry of Finance, Govt. of India funds now can only be transferred to state societies/authorities through State Government treasury. In view of this funds will be first transferred to the state government treasury and from there to OSDMA. Similarly, Govt. of Gujarat has to provide for 100% expenditure for the project under budget head. Funds from the central government will be first transferred to the state treasury and then from there transferred to GSDMA for the project. .

In case of Andhra Pradesh, the funds would be transferred by the PAO (Pay and Accounts Office) of NDMA to the Stateös Treasury and the State would continue to follow the existing mechanism for management and disbursement of funds. Similarly, in case of new participating States of Goa, Karnataka, Kerala, Maharashtra and West Bengal funds from central government would be reimbursed to the state treasury. State treasury will release funds (based on the annual approved budget) according to the respective state administration procedure either to the PIU set up in the administration department (mostly for Project Management Expenses under Component D) or directly to the executing line departments (mostly for expenditure under Component B).

Wherever, other independent agencies are involved in the execution of the work under the project (Eg: Electiricity Companies for Under Ground Cabling), there funds from the PIU will be transferred to these independent agencies in a separate bank account. The basis of this transfer will be the Memorandum of Understanding signed between the administration department and these agencies.

3.3.3. Release of funds from the PMU and the PIUs to vendors/external parties.

11. Based on the invoices received after accomplishment of works/consultancy/services the Finance Team at the PMU/PIU shall process payments as per orders and arrange payments through DDO/PAO NDMA and as the case may be applicable in States respectively.

3.4. Basis of release of funds to the PIUs and the PMU

12. The rules for release of funds under different components of expenditure are illustrated as follows:

Purchase of goods & equipment/civil works/services:

Frequency of Instalment	**Percentage of Instalment**	**Pre-Conditions**	**Documents to be submitted by State/UT**
Year 1			
1st	60% (Central Share) Balance 40% (Central share)	Procurement plan and budget for the year. To furnish reasonable evidence that 50% of the total release for the year have been disbursed.	Procurement plan and Budget. Reasonable Evidence/Utilisation certificate.
Year 2			
Ist	60% (Central share) Balance 40% (Central share)	Procurement plan and budget for the year. and; Submission of utilisation certificate for first instalment of previous year.	Procurement plan, Budget and Utilisation certificate.
2nd		-Second instalment of previous year and; -50% of utilisation of first instalment of current year.	Utilisation certificate.
Year 3 and subsequent years		Similar principles as those for year 2.	

13. The State Governments/UTs should submit Utilisation Certificates for the total amount (of the Central share) in respect of the expenditure incurred while submitting request for release of subsequent instalment of funds. Similarly PIU-NIDM would also submit Utilisation Certificate in respect of the expenditure incurred while submitting request for release of subsequent instalment of funds. *Refer Annexure 9.*

14. In addition, State Governments/UTs and MHA may conduct inspections to ascertain the progress of implementation of the Project. The release of funds should be linked to physical targets achieved in the implementation of the Project.

15. Unspent balances available with the State PIU shall be taken into account before further releases of funds are made.

3.5. Banking arrangements:

16. The PIU of Govt. of Gujarat i.e., GSDMA shall open a separate bank account for receiving NCRMP funds and making all payments out of NCRMP funds. The bank account shall be opened as per the directives issues by NDMA/Ministry of Home Affairs in this behalf in consultation with respective State Governments.

17. Participating States of Goa, Karnataka, and Maharashtra have not opened a separate bank account. West Bengal has opened a separate dedicated bank account for project management and implementation support expenses under Component D .Kerala has opened a Special Treasury Savings Bank account in the District Treasury of Thiruvananthapuram for the project in the joint name of Project Manager and Project Director.

18. The PMU shall keep track of the funds received from the World Bank and amount released to States/UTs.

3.6. Retroactive Financing:

19. Expenditure may be initiated prior to the World Bank's approval of the Project. In such a case, the expenditure shall be eligible for retroactive financing provided that Bank's procurement procedures are complied with. In such a case, the following rules will generally apply subject to the specific details set out in the Financing Agreement;

-Total amount of retroactive financing of expenditures will not exceed 20 per cent of total credit/loan. Any expenditure in excess of 20 per cent of total credit/loan will be borne by Government of India/States.

-Eligible expenditure can be borne up to a maximum of 12 months prior to the signing of the Project Agreement and Financing Agreement.

-The PIU and PMU should ensure that the Bank's procurement procedures are followed while incurring expenditure under the Project so that the expenditure becomes eligible for reimbursement from the Bank.

-The activities financed by retroactive financing are related to the Dos and are included in the project description.

Chapter - 4

4. Accounting and Financial Monitoring

4.1. Accounting Policies

1. Government departments across India follow the cash basis of which will also be followed for NCRMP.
2. All payments shall be charged off to relevant expense account head at the time of making the payments except advance payments. Advance payments shall be charged off to the relevant heads of accounts on adjustment.

3. The assets created out of Project funds shall be accounted at acquisition cost including taxes, duties, freight and other incidental expenses relating to acquisition.

4. No depreciation shall be provided on Fixed Assets acquired under the Project.

5. The basis of preparation of financial reports and significant accounting policies related to material items shall be disclosed.

4.2. Chart of Accounts

6. In addition to the requirements under GoI rules for financial reporting and irrespective of the legal constitution the PIUs and PMU, the implementing agencies are required to maintain financial records in such detail as is required by the Project guidelines. Accordingly, the PIUs and the PMU will maintain a detailed Chart of Account for booking expenditures under the NCRMP II. All expenditure under the Project would be recorded against the appropriate ledger codes specified in the Chart of Accounts for the NCRMP II. The indicative Chart of Account is provided in *Annexure-4.*
7. The Chart of Account maintained should be able to provide sufficient details under which head expenditure has been incurred. The Chart of Account would facilitate categorisation of expenditure as per the Project guidelines.

4.3. Method of accounting and book keeping

8. Separate books of accounts and records of fund flow for the Project funds are required to be maintained by each PIU. The existing mechanism for financial management and disbursement would be followed for NCRMP II also, wherein the line departments would have to maintain separate books of accounts and records for flow of funds under this Project.

9. A 'Grant in Aid' register in the prescribed form for receipt of funds from Government of India shall be maintained. This register will be used to record the money received as instalments of Government of India share, expenditure incurred and reference to utilisation certificate numbers sent to GoI. The format of the register has been provided in Annexue-5.

10. Each of the PIUs will maintain standard Books of Account (Master Cash Book/Bank Book, Cash/Bank book, ledger, cheque issue register, fixed assets register etc.). Master Cash Book shall be a summary of all payments made by the PIU. These books of account would be maintained by the respective line departments also. The States/NIDM may continue to use existing formats for ledger, cash book and cheque issue register. An illustrative format of the cheque issue register has been provided in Annexure-6.

11. Support vouchers will be prepared for record of transaction.

12. PIU will pay particular attention to maintenance of Works and Contractor's Registers.

13. The Cash/Bank Book will be closed monthly and attested by the In-Charge (Finance) of PIU.

14. In addition, bank reconciliation statements would be prepared by PAO at NDMA and the PIUs on a monthly basis and be approved by the Finance Head of the respective implementing agency. An illustrative format of bank reconciliation. Statement has been provided in Annexure-7.

15. **Gujarat:** Payments are decentralized, with multiple accounting centers but accounts are consolidated at PIU. Cash basis of accounting system is used. Tally software is used for preparation and maintenance of book of accounts. Each of the executing line department/agency is treated as company in TALLY and money transferred to them is treated as advance. Payments are decentralized. Executing line department/agency make payments and basis details of expenditure submitted by the divisions of the executing agencies, advances are adjusted in TALLY. At PIU the finance staff maintains centralized records in TALLY and makes quarterly visit to the executing line departments divisions to get copy of running bill. Signature of division head is taken on the records submitted.

16. **West Bengal**: Payments are centralized and consolidated accounting at PIU. For expenditure made under Component B contractors will submit bill at executing department divisional level. The bill shall be scrutinized by the technical and finance officials at the division level. The bill shall then be sent to the PIU for pre-audit by the finance manager and the Chief Engineer.

Finally from PIU, it will be sent to treasury for payment. Payment will be made by treasury directly into the bank accounts of the contractors. Hence, accounting shall be through State AG. For expenditure under Component D, separate books of account will be maintained in TALLY. The SPIU has to maintain a contract register centrally (for both Components), tracking all contracts and mobilization advances paid, settled and outstanding against these contracts together with the ageing of advances. This will provide the project with information required on pending payments and help track project progress.

17. **Kerala:** Payments: A Special TSB (STSB – 117) has been opened in the District Treasury of Thiruvananthapuram for the project in the joint name of Project Manager and Project Director. Funds from the SPIU will be transferred to the third party basis the approved bill. The running bill of the contractor will be approved by Engineer of District Nirmithi Kendra (DNK) followed by accounts officer at DNK, finance Officer at District Collector, District Collector, civil engineer at SPIU, finance officer at SPIU and project manager at SPIU, in the same order. Approval process is layered and hence it is necessary that timelines/SLA are defined for each approval stage, else there might be delay in payments.

Accounting: Accounting for project expenditures will be maintained on cash basis of accounting and separate books of accounts will be maintained for the project. Accounts will be maintained on Tally. Contractor wise ledgers / records will be maintained which would be consolidated by the SPIU; tracking all contracts and mobilization advances paid, settled and outstanding against these contracts together with the ageing of advances. This will provide the project with information required on pending payments and help track project progress.

18. **Maharashtra:** Accounting for project expenditures will be maintained on cash basis of accounting and separate books of accounts are to be maintained for the project. The respective line departments would maintain accounts under their regular State AG procedures with separate budget codes etc. MSEDCL has to maintain separate books of accounts in SAP either by opening separate cost center or separate company for the project. The SPIU at MDRP would maintain a contract register centrally, tracking all contracts and mobilization advances paid, settled and outstanding against these contracts together with the ageing of advances. This will provide the project with information required on pending payments and help track project progress.

19. **Karnataka & Goa:** Payment and accounting should be as per state government accounting procedure.

4.4. Fixed Asset Register.

20. The PIU, PMU and line departments shall maintain a separate Fixed Assets Register to record the assets acquired and created by them respectively out of the Project funds. The format is attached as Annexure-8. Individual asset-wise entries will be recorded in the Fixed Assets Register.

21. An identification number for each item of assets would b assigned for easy identification of the assets. These identification numbers would be painted on each item prominently and the same would be recorded in the Fixed Assets Register.

22. Each PIU shall ensure that assets created out of the Project funds are being utilised for Project purposes only. There will be an annual physical verification of fixed assets by the finance wing of the PIU.

4.5. Period for which records are to be kept:

23. The PIU/Line departments and the PMU shall ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditure are retained until at least five years after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the loan account was made.

4.6. Submission of Utilisation Certificates

24. Each PIU/PMU shall consolidate the amount spent and amount incurred by it on the basis of entries made in the Cash Book and Master Cash Book. Before seeking funds from GoI, the PIU shall submit the utilisation certificates in prescribed format to the PMU. The Format of utilisation certificates has been provided in ***Annexure-9.***

25. Where the PMU is an implementing agency (for instance in Component A,C) or is using the funds for Component D, the PMU shall submit the utilisation certificates to NDMA/MHA.

5. Internal Control and Governance Structure

1. To ensure the integrity of Project Accounting and Financial Management System, each PIU and the PMU shall establish proper internal check and internal control mechanism. It includes establishment of procedures and

systems for ensuring standard internal control such as checking of expenditures, appropriate documentation, levels of authorisation, periodic bank reconciliation and physical verification.

2. The PIUs and PMU will develop a system to ensure that expenditure are incurred with due regard to economy, efficiency and propriety. For this purpose, finance wing of the PIU and the PMU will check the veracity of records provided by the executing division/department.

3. The States need to follow the system of financial management wherein the line departments would be maintaining financial records. Therefore, the line departments would establish systems such that that expenditures are incurred with due regard to economy, efficiency and propriety. Each State need to follow the system in place which has the above stipulations, in the absence of which set up new system based on such stipulations.

5.1. Financial governance

4. The PIU set-up under each State/UT will follow the rules for delegation of authority applicable to each State/UT. The organisational hierarchy of the PIU shall provide for authority and responsibility of the finance wing of the PIU, who shall be accountable for utilisation of Project funds as per the laid down procedures.

5. The funds to be utilised as per the approved procurement plan and budget. Any re-appropriation of funds from one head to other is permissible only under the sanction of competent authority.

6. Each PIU shall devise a system of reporting which is fair, transparent and assessable to all stakeholders of the Project.

7. The PIU and the PMU shall appoint external auditor for conducting audit of Project Financial Statements of Project as per the scope and report of the auditor shall be available to all stakeholders. For details, refer Section 7.

- National Steering Committee will review the annual/revised budgets at their semi-annual review meetings. It shall also review the critical findings of audit reports and further actions.

- State Steering Committees shall perform a similar function for their states.

5.2. Passing of bills

8. The following are the matters to be considered while passing the bills under different categories of expenditure.

5.2.1. **Checklist for bills relating to goods**

- Whether the bill for purchase of goods is supported by Purchase Order, Goods Received Note and Supplier Agreement, if any?
- Whether the goods have been procured as per the procurement guidelines laid down for NCRMP II?
- Whether the request for purchase of goods has been accorded sanction as per respective delegation of power and as per the budget of the concerned period?
- Whether the goods purchased have been taken to stock register and certificate furnished accordingly?

5.2.2 Checklist for bills relating to works

- Whether the bills for Works are passed with reference to original agreement with Contractor? It should be scrutinised that bill raised by the contractor is as per the payment conditions provided in agreement.
- Whether the work bills is counter-signed by the Engineer In- Charge of the work concerned and such site-engineer has certified on the bill that "bill has been cross tallied with the measurement book and as per the stage completed and mentioned in the measurement book"?
- If the work bill presented is the final bill, whether the completion certificate issued by the Engineer in Charge is enclosed?
- Whether the asset created has been taken to asset register and certificate furnished accordingly?

5.2.3 Checklist for bills relating to consulting services

- Whether the bill for consulting services is as per the milestones mentioned in consulting contract?
- If there is any delay in milestones, applicable deduction on account of delay has been made as per consulting contract?

These points are not exhaustive and therefore at the time of passing of bills, consideration should be given to propriety, efficiently and economy of transaction.

5.3. Documentation

9. Every voucher for payment should be filed properly along with the concerned bill and supporting documents.

76. Vouchers should be serially numbered with a corresponding reference key in the accounting system.

- Once the payment is made, the bill should be crossed on its face as "Paid".

5.4. Internal audit

10. To ensure that PIU has an adequate system of internal control, which includes control over providing reliable data and safeguarding assets and records, it is necessary to have a system of internal audit after prescribed frequencies.

5.4.1. Scope of Internal audit

11. The internal auditor shall conduct an assessment of the adequacy of the Project management, financial management, and procurement system including internal controls. The internal auditor shall provide PIU and PMU with timely information and recommendations on the project to enable the PIU and PMU to take corrective measures, wherever necessary.

An indicative checklist on matter to be considered for routine financial controls is given in ***Annexure 10***. The term of reference for the Internal Auditor is provided in ***Annexure 11.***

5.4.2.Agency for conducting internal audit

12. An independent internal auditor shall be appointed to provide reporting on compliance with operating guidelines for the NCRMP for the PIU nd the PMU. State PIUs would appoint internal auditors for the respective States.

5.4.3. Frequency and timelines for conducting internal audit

13. At the beginning of each year, an assessment would be made of the work being executed based on the Procurement plan. Based on this assessment, the Finance Head of the PIU and the PMU shall prepare a draft internal audit calendar (for PIU and PMU respectively) detailing the scope, coverage and frequency of review.
14. This audit calendar would be reviewed by the Project Director of the PIU and forwarded to the Project Director, PMU for inputs (if any). Based on the inputs provided, the internal audit coverage would be finalised for the PIU and the PMU for the year.

15. The draft IA Calendar shall be forwarded to the Project Director, PMU for consideration by January 31st of every year. The IA Calendar shall be

finalised by the Project Director, PMU by February 28th of every year. The guidelines for finalising the internal audit coverage are as follows:

- The audit should cover at least 50% of the expenditure incurred by the PMU/PIU during the year.
- The audit coverage should be decided considering the need for follow up audits at locations where significant observations have been reported previously.
- The audit calendar to also include certain works/line departments where there is significant delay in utilisation of funds released.

5.4.4. Responsibility for oversight and appointment

16. The Finance Head at the PIU or PMU shall be the coordinating officer for the conduct of the Internal Audit.

5.4.5. Review and reporting

17. The internal auditor would submit the audit report to the Project Director PIU & PMU respectively for their respective operations on a half yearly basis. In addition, the Head the Finance of the PIU shall forward Internal Audit reports to PMU within two weeks of submission by the Internal Auditor.

18. In addition, the Project Director (PIUs and PMU) shall review the findings and the progress of the Internal Audit on a half yearly basis.

5.5. Disclosure requirements

19. The following information shall be displayed on the Project website;

- List of sanctions/releases providing details of sanction order No., recipient State, amount, date of release by Pay and Accounts Office and/or date of cheque.
- Consolidated IUFR for the Project and IUFRs of individual PIUs.
- Consolidated 'Project Financial Statements' (refer Annexure 12 for format).
- Annual audit report.
- Annual approved budget.

6. Financial reporting

6.1. Interim Un-Audited Financial Reports (IUFRs)

1. Each PIU shall submit to the PMU Interim Un-audited Financial Reports (IUFRs) within 25 days after the end of every Quarter. The PMU shall consolidate the IUFRs received from PIUs and send it to the Bank within 45 days after the end of every quarter. The formats of IUFR have been provided in **Annexure 13, Annexure 13A, and Annexure 13B.**

2. It is clarified that basis for reporting will be expenditure by the implementing entity and not releases. Reporting through the IUFRs will have the advantages of (a) regular reporting of expenditure information, thus ensuring timely monitoring (b) regular reimbursement from the Bank, thus ensuring timely receipt of the loan/credit funds.

6.2. Project Financial Statements (PFS)

3. The duty audited PFS (refer section 7) shall be prepared and submitted by the PIU to the PMU by August 31st after the end of the financial year. The PMU shall in turn consolidate the PFS and submit them to the Bank within 6 months of the end of the financial year.

4. The PFS shall include:

- A summary of funds received, showing the World Bank and counterpart funds (State share) separately;
- A summary of expenditure under the main Project components, both for the current year and accumulated till date.

The format of the PFS is provided in ***Annexure 12***

7. Audit requirements for Project Financial Statements.

1. To ensure proper accountability of Project funds and to comply with requirements of World Bank, it is necessary to have an effective system of independent external audit of accounts of the Project.

7.1. Scope of audit

2. The Project Financial Statement (PFS) shall be audited such that the auditor may express a professional opinion on the financial position of NCRMP at the end of each fiscal year and of the funds received and expenditures incurred. The terms of reference for the external auditor have been given in ***Annexure 14.***

3. In case of States books of accounts would be audited by the State AG (except for Gujarat). The scope of audit would be as per the 'standardized terms of reference for audit of World Bank assisted Projects' issued by the office of the C&AG of India (provided in annexure 15). In the case of Gujarat notwithstanding the statutory audit of AG, the project statements shall be audited by an external auditor to be appointed by GSDMA.

7.2. Timeline for conduct of audit of Project Financial Statements

4. The PIU/PMU shall be responsible to get the audit completed for their operations and submit the audit report on or before 30th September each year after the end of financial year of the Project.

5. Accordingly, the PIU and PMU shall submit their audit report to the Head of Finance, PMU on or before August 31 each year after the end of the financial year. The Head of Finance, PMU shall submit these to the World Bank on or before 31st December after the end of the financial year.

7.3. Responsibility for conducting the audit of Project Financial Statements

6. Timely completion of audit at PIU's end and submission of audit certificate along with Project Financial Statements shall be the responsibility of the Head of Finance for the PIU/PMU. The Head of Finance for the PMU shall oversee and monitor that the necessary arrangements have been made well in time for the conduct and reporting of the audit.

7.4. Agency for conducting the audit of Project Financial Statements

7. PMU shall request the Comptroller & Auditor General of India (CAG) to carry out an audit of Project accounts for PMU, NCRMP NDMA. However, in case of Gujarat as is the case with Odisha the audit would be got conducted through Chartered Accountants firm empanelled with Comptroller & Auditor General of India (CAG).

8. The firm would be selected out of this panel based on following criteria:

- Constitution of the firm- Whether partnership or proprietorship and year of establishment;
- Number of partners in the firm-Whether FCAs/ACAs;
- Experience of partners;
- Years of association of Partners with the firm;
- Experience of the firm in similar assignments;
- Turnover of the firm in previous three years; and
- Number of staff providing details of qualified, semi-qualified and others.

9. In case of all the States except Gujarat this audit would be conducted by the State AG as per the terms of reference agreed with CAG (provided in annexure 15). However, State AG would have to adhere to the timeline of nine months for completion of audit of Project accounts in these States.

LIST OF ANNEXURES

Annexure 1- Format for preparation of budget estimates by State PIU's

National Cyclone Risk Mitigation Project

Name of the State PIU

Budget Estimates for the period...........

S. No	Component	Specific tasks/Objectives to be taken up	Physical Target	Probable date of completion of activity	Estimated expenditure/ Funds required	Expenditure incurred till the start of the present year	Budget expenditure category	Disbursement category
	TOTAL							

Annexure 2 –Format for preparation of budget estimates PMU

Nation Cyclone Risk Mitigation Project

Consolidated Budget for the period ending...............

S. No	State / PIU	Component	Specific Tasks/Objectives to be taken up	Physical Targets	Probable Date of Completion of activity	Estimated expenditure/ Funds required	Expenditure incurred till the start of the present year	Budget Expenditure category	Disbursement category
	Sub-Total								

Annexure 3-Abstract of Rule 237 of General Financial Rule

National Cyclone Risk Mitigation Project

Reimbursement through Special Account (Revolving Fund Scheme) has been explained in Rule 237, which says:

Under the Revolving Fund Scheme, the Funding Agency disburses the estimated expenditure of four months for the Projects as initial advance to the Government of India under the respective loan/credit/grant agreement. Office of Controller, Aid Accounts and Audit withdraws the amount specified in the agreement as initial deposit from the funding agency, by sending a simple withdrawal application in the prescribed format after the loan is declared effective. Such initial deposit designated in US $ is received by Reserve Bank of India, Mumbai and rupee equivalent shall be passed on to Controller, Aid Accounts and Audit through Government Foreign Transaction (GFT) advice. However, Reserve Bank of India, Mumbai shall maintain a loan wise Pro forma account for liquidation of advance received from Funding Agency. Office of Controller, Aid Accounts and Audit, on receipt of reimbursement claims from Project Implementing Agency, shall send an advice to Reserve Bank of India, Mumbai advising them to debit the Special Account with the US $ equivalent of the amount of the eligible claim. Office of Controller, Aid Accounts and Audit shall consolidate all such claims and submit to Funding Agency for replenishment of Special Accounts. This will be accompanied by a statement of debits and credits made during the period by Reserve Bank of India. Mumbai and supporting documents received from the Project Implementing Agency.

Annexure 4-Indicative Chart of Accounts
National Cyclone Risk Mitigation Project
Expenditure

Component (1 digit)	**Specific Task/ Objectives (2 Digits)**	**Detailed Head (3 Digits)**	**Link to Budgetary Classification**
Component A- Last mile connectivity	-Purchase of equipments -Execution of civil works	-Procurement of goods (Plant & Machinery) -Procurement of goods (Office Equipment). -Procurement of goods (Vehicles). -Procurement of goods (Office Furniture). -Procurement of Goods-Works A/c-Embankment. --Procurement of Goods-Works A/c-Cyclone Shelters. -Procurement of Goods-Works A/c-Approach Roads. -Procurement of Goods-Works A/c-Others -Operating Cost –Salaries -Operating Cost-Rent -Operating cost-Travel Expenses -Operating Cost-Repairs & Maintenance-Office equipment -Operating Expenses-communication Expenses. -Operating Expenses- Hiring of vehicles. -Operating Expenses-Hiring of Equipments. -Operating Expenses –Office Expenses.	Major Works Other Expenditure
Component-B Physical Infrastructure	-Construction of Embankment -Construction/Repair of multi-purpose cyclone shelters. -Construction/Repair of missing rural road links. -Underground Cabling		
Component-C Capacity Building	-Consultancy		
Component D- Project management	-Consultancy -Operating expenses		

Component (1 digit)	**Specific Task/ Objectives (2 Digits)**	**Detailed Head (3 Digits)**	**Link to Budgetary Classification**
		-Operating Expenses-Printing & Stationery. -Operating Expenses-Books & Periodicals. -Advertising Expenses -Consultants' Services -Operating Expenses-Workshops & Training Programmes Advances-Advances payment to Contractors Advances-Materials issued to Contractor Advances-Advance against Material Advances –Mobilisation advance Advance-Machinery advance Advances-Advances to suppliers Advances-Other Advances -Tax Deducted at source account Statutory Deductions-Income Tax & surcharge from Supplier's/Contractors (Credit Balance). Statutory Deductions-Income Tax & surcharge from Supplier's /Contractors (Credit Balance). Statutory Deductions-Works Tax/State Tax &	

		surcharge from Supplier's/ Contractors (Credit Balance). Statutory Deductions-Any other deduction from Supplier's/Contractors (Credit Balance). Deposits Repayable-Earnest Money Deposit from suppliers/contractors (Credit Balance). Deposits Repayable-Security Deposit from supplier/contractor (Credit Balance). Deposit Repayable- Any other refundable deposit	

Receipts

Component (1 digit)	Group of Income (2 Digit)	Detailed Head (3 Digit)
A-Last Mile connectivity B-Physical Infrastructure C-Capacity building D-Project management	Project funds	Funds Received-GoI share Funds Received-State Govt. share
	Incidental Receipts	Forfeiture of EMD Fines, Forfeiture, penalties etc. Any other non-refundable deduction Miscellaneous Receipts

Explanatory Notes to Chart of Accounts:

- This Chart of Accounts is composition of 6 digit code. The account code structure for expenditure shall be as follows:
  - Component A to D will have codes 1,2,3,4 respectively.
  - Specific tasks/objectives shall be assigned codes starting from 21 up to 99 Depending on the number of works to be taken up.
  - Detailed heads will have range from 211 to 999.
- The account code structure for receipt shall be as follows:
  - The codes for component shall remain the same.
  - Group head has been assigned code from 11 to 20.
  - Detailed heads will have range from 111 to 199.

Annexure 5-Format of Grant-in-Aid Register

National Cyclone Risk Mitigation Project

State Government of....................

Project Implementation Unit

Amount Released by GoI (a)	Reference of Sanction Order No.	Date of credit to State Government Account (b)	Amount Spent	Reference of Utilisation Certificate (UC No.)

The entries can be cross tallied from this register to Master Cash book maintained by PIU.

Annexure 6- Illustrative Format of Cheque Issue Register

National Cyclone Risk Mitigation

Name of the State PIU:

S.No.	Date of Issuance of Cheque	Name of the Party/To whom cheque is issued	Reference of the Bill No./ Voucher No./Purpose for which cheque has been issued	Account Head	Amount (In Rs.)

Annexure 7-Illustrative Format of Bank Reconciliation Statement

National Cyclone Risk Mitigation Project

Bank reconciliation Statement for NCRMP as on dd/mm/yyy				
Particulars		Details		Amount in INR
Debit Balance per Cash Book				XXX
Add	Cheques Issued/drawn but not yet presented for payment.		Xx	
	Interest Allowed by Bank but not recorded in Cash Book.			
	Cheques paid into Bank but omitted to be entered in Cash Book.		Xx	
	Any wrong Credit given by Bank in the Bank Statement		xx	XXX
Less	Cheques paid into the Bank but not cleared		xx	
	Interest and expenses charges by Bank		xx	
	Cheques issued but omitted to be entered in Cash Book		xx	
	Any wrong debit given by Bank in the Bank Statement.		xx	
	Any wrong debit given by Bank in the Bank Statement		xx	XXX
Computed Credit Balance as per Pass Book				XXX
Credit Balance as per Pass Book				XXX
Difference if any				XXX

Annexure 8- Illustrative Format of Fixed Asset Register

National Cyclone Risk Mitigation Project

State Government of..................

Project Implementation Unit

Sl. No.	Description of Item	Custodian Department	Supplier's Name	Location	Date of Purchase	Invoice/ Bill No.	Amt.	Qty.	Identi-Fication No.	Initials

Annexure 9- Format of Utilisation Certificate

National Cyclone Risk Mitigation Project

Sl.No.	Letter No. and date	Amount
	TOTAL (1+2)	Rs.

Certified that out of Rs.________(Central share to be mentioned) of Grants-in-Aid sanctioned during the FY___________ in favour of Government of _______under the Ministry/Department letter No. given in the margin and Rs.________**(Amount in words)** on account of unspent balance of the previous year, a sum of Rs.______ **(amount in words)** has been utilised for the purpose of _____________ for which it was sanctioned and that the balance of Rs.________ remaining un-utilised at the end of the year has been surrendered to Govt. vide letter No.________ dated _______/will be adjusted towards the grant-in-aid payable during the next year.

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

Kinds of Checks exercised:

1. Procurement procedure followed as per norms indicated in procurement manual.
2. Procurement certificate furnished.
3. Civil works carried out by PWD/State approved agencies as per approved estimates and layout drawings.
4. Grant-in-Aid checked from the register maintained.
5. Expenditure checked from the register maintained.
6. Any other check required as per the guidelines.

____

Signature of Finance Director of PIU

Date:_________

Annexure 10-Indicative list on basic financial controls

National Cyclone Risk Mitigation Project

- **Transactional check**
  - To check whether transactions are recorded properly under appropriate heads of account.
  - To check whether transactions take place under proper authority with respect to concurrence to budget, passing of the bill, making payments etc.
  - To check that transactions are duly supported by proper supporting documents.
  - To check the propriety of transactions to ensure that expenditure are incurred with due consideration of economy and efficiency.
  - To check whether World Bank guidelines are being followed for procurement of goods, works and services.

- **Checking the system of maintenance of Books of Accounts**
  - To ensure that there exists a sound system of book keeping that record all the transactions without delay.
  - To ensure there is proper segregation of duties and persons authorised to make payments are not allowed to update the Books of Account.
  - To ensure that Books of Account are cross tallied at proper intervals of time.
  - To ensure that Books of Account are supported by various subsidiary records and these records are reviewed at periodic intervals.

- **Checking the Subsidiary records**
  - Check whether budgets are reviewed periodically.
  - Check if running bills are raised for payment under each Project.
  - Check the various contracts awarded, supply order raised under each component of the Project.
  - Check the bill register and ensure about the status of fund utilisation and bills pending for payment.
  - Check whether there exist proper linkages between subsidiary records, accounting records and financial reports generated.

- **Checklist for Financial Management**

To check if:

- Cash book are written up to date.
- Cash balance reconciles with physical cash in hand, if any.
- General ledger is written up-to-date and has the relevant ledger heads.
- All vouchers are serially numbered and filed properly.
- Bank reconciliations have been done as at the end of each month.
- Fixed Asset Register is up to date.
- Advances are classified separately. Only on the receipt of contractor's /vender's bill, advances are adjusted.
- Whether advances are outstanding for long (greater than 6 months).
- Whether there are any pre-signed blank cheques or large cash withdrawals.

Annexure 11- Terms of Reference for Internal Audit
National Cyclone Risk Mitigation Project

1. Introduction

Project Background

The Government of India has initiated National Cyclone Risk Mitigation Project II ('NCRMP II'), herein after referred to as the 'Project' or 'NCRMP II', with a view to address cyclone risks in the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs.

The key objectives of the NCRMP are as follows:

- Reduction in vulnerability of coastal States, through creation of appropriate infrastructure which can help mitigate the adverse impacts of cyclones, while preserving the ecological balance of coastal regions.
- Strengthening of cyclone warning systems enabling quick dissemination of warnings and advisories from source/district/sub-district level to the community for their timely reception and adequate response.

Project Components

Based on the above objectives, the Project has been divided into four components, namely:

- **Component A-** Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs.
- **Component B-** Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs.
- **Component-**C-Technical assistance for capacity building on hazard risk management NDMA and National Institute of Disaster Management (NIDM) are the implementing agencies for this Component.
- **Component D-Project Management and Monitoring applicable to all implementing agencies.**

Proposed Implementation/Funds Flow Arrangements:

The NCRMP II shall be coordinated by a central Project Management Unit (PMU) set up at NDMA. The participating States/UTs shall set up their respective Project Implementation Units ('PIUs'). The PMU shall coordinate with NDMA, MHA, Wolrd Bank, CAAA and other external agencies involved. The PIUs shall coordinate with the various line departments of the State Government/UT which will be finally responsible for execution of Project work.

The Project is assisted by the World Bank. The external aid disbursed by the World Bank is first received by the Central Government in the Ministry of Finance (MoF). The funds are transferred to the PIUs' through the state treasury based on the status of their utilisation of funds and other details as specified in the finance manual. Expenditure under the Project will either be made centrally at the PMU or at the State PIUs. Each PIU or PMU which makes payments maintains regular books of account and records as per the prescribed procedures.

2. Objective

The objective of the internal audit is to determine whether the Project management arrangements including procurement, financial management, physical progress monitoring and internal control mechanisms are working effectively. The auditor shall also identify areas for improvement and enhancing efficiency. This should include aspects such as adequacy and effectiveness of accounting, financial, procurement related and other operational controls, and any needs for revision; level of compliance with established policies, plans and procedures; reliability of accounting system, data and financial reports; methods of remedying weak controls or creating them where there are none; verification of assets and liabilities; and integrity, controls, security and effectiveness of the operation of the computerised system.

The internal auditor shall provide the PIU and PMU with timely information and recommendations on the financial management, procurement, project management and physical progress aspects of the Project to enable the management to take corrective measures, wherever necessary.

3. Scope of Audit Services

The audit will be carried out in accordance with applicable professional standards & will include such tests & controls, as auditors consider necessary under the circumstances. In conducting the audit special attention should be paid to the following :

- **Procurement**
  - Whether goods, works and services are being procured following the procurement procedures defined for the Project (Project Guidelines and the guidelines internal to PIU/PMU).
  - Whether goods, works and services are being procured in accordance with the procurement plan and sanctioned budgets.
  - Whether time schedule for procurement of goods, works and services is in line with the Project Procurement Plan.
  - Whether required documentation for procurement activity and contract management is being maintained for all purchases made.
  - Whether capacities for procurement as indicated in the operations manual have been created.
- **Financial Management**
  - Whether books of accounts are being maintained in the manner and formats defined by the Financial Management Manual of the Project.
  - Whether the financial transactions are being accurately and completely recorded.
  - Whether utilisation certificates and IUFRs submitted are prepared in time and reflect the correct status of utilisation of funds as recorded in the books of accounts of the Project.

- O Whether the fund management is being done in compliance with Financial management guidelines of the Project.
- O Whether funds have been used with due regard t economy, efficiency and for the purposes they were provided.
- O Whether release of money is adequately supported.
- O Special emphasis may be laid on items like:

- Timely and accurate preparation of Bank Reconciliation Statements.
- Maintenance of separate accounts for NCRMP II
- Timely and accurate preparation of financial reporting statements.
- Surplus funds lying unutilized for long.
- Financial records and registers being maintained.
- Disbursement of funds to the third parties.

- O Understand the process of tagging and maintenance of assets acquired under the Project. The auditors may perform physical verification of assets (if considered necessary).
- O Whether capacities for financial management as indicated in the operations manual have been created.

- * **Others**

- O Whether appropriate internal controls as specified by the Financial Management Manual, Operations Manual, Procurement Manual and other relevant notifications, if any, are operating satisfactory. The auditor should suggest methods for improving weak controls or creating them where need be.
- O Verifying compliance with recommendations of the earlier audit reports and commenting requisite approvals obtained.

4. Reporting and Audit Opinion

The internal auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusion on the efficiency and effectiveness of systems, processes and controls. Each report shall have the following sections

- Introduction- Objective, scope, nature and coverage of the audit including period covered, locations reviewed, work carried out, staff involved., level of coverage of all listed aspects
- The internal auditor's opinion as to the overall adequacy of the systems of internal control,
- Key findings; separately for Procurement, Financial Management, Project Management & Institutional Aspects and Others.
- Detailed internal audit findings, with adequate descriptions of weaknesses identified and the associated risk. This section will be supported with details, tables, annexure.
- Recommendations; separately for Procurement, Financial Management, Project Management & Institutional Aspects and Others.

- Responses to findings and recommendations by authorized persons stating the timeline for remediation and the person responsible
- Progress on earlier set of recommendations and constraints faced.
- An Executive Summary highlighting the critical issues preferably classified as per thematic area

The report should be discussed and agreed with the auditable units and should be structured to list 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. Copies of all internal audit reports shall be made available to the external auditors.

The auditor will commence their audit immediately after the close of the half year, complete the audit and submit their audit report within 45 days from the end of the half year. The semiannual internal audit report will be addressed to the Project Director at the state PIU and the copies will be provided to the NDMA.

5. Composition of Review Committee to Monitor Internal Auditor's Works

The following officers will be on the committee to monitor Internal Auditor's Report:

1. **Prinicpal Secretary, Administrative Department, Respective State Government**
2. **Chief Engineer, Line Department**
3. **CMD, Underground Cabling**
4. **Project director, NCRMP II**
5. **Finance Manager, NCRMP II**
6. **Any other**

The Committee will review the audit report and send the action taken report to the funding agency.

6. Support/Inputs to be provided by the PIU

The internal auditor will be given access to all legal documents, Project Financial Management Manual, Procurement Manual, procurement check list, and any other unclassified information associated with the Project and deemed necessary by the auditor. It is extremely important that the auditors become familiar with the Project Guidelines on Disbursements and Procurements. All these documents will be provided to the auditor by the PIU/PMU.

7. Qualification & Team Composition

The Internal Auditor team must have considerable experience and expertise in conducting audits particularly on infrastructure development projects. All the key team members will work as full time staff for the period committed by the consultants. The Consultants should also have experience in the process and audit practices of World Bank assisted projects.

Annexure 12- Format of Project Financial Statement

National Cyclone Risk Mitigation Project

For the period ended on______________

(Amount in Rs.'000)

Particulars	For the year ended on..........	Previous year ended on.........	Project till date
Sources			
State Government Funds			
Government of India Fund			
Total Sources (I)			
Expenditure by Component			
Component –A-Last Mile Connectivity (A)			
Component –B Physical Infrastructure • Construction/Renovation of Embankment • Construction of multi-purpose cyclone shelters and access roads. • Construction/Extension/Repair of missing rural road links. • Construction of roads and bridges.			
Total of Component-B-(B)			
Component C-(C)			
Component D-(D)			
Advances to Suppliers/others (E) • Advances for civil work • Advances for equipment • Other Advances			
Total Uses of Funds (II=A+B+C+D+E)			

Certified that the above figures are as per the books of account maintained by the implementing entity.

____

Signature

Head of the Finance, PMU

Annexure 13- Interim Un-audited Financial Report- Refer excel format

National Cyclone Risk Mitigation Project II

Format - 1

Quarterly Interim Financial Reports

Report as on xx-xx-xxxx

			(Amount in Rs. Lakhs)	
		Cumulative		
Particulars	**For the Quarter**	**Financial Year till date**	**Project till date**	
Opening Balance of Funds(A)				
Receipts				
State Government Funds				
Government of India Funds				
Other receipts/income				
Total Receipts (B)	-	-	-	
Total Sources (C = A + B)	-	-	-	
Expenditures by Component				
A. Early Warning Dissemination to Coastal Communities				
A.1 - EWS				
A.2 - Community mobilization and training				
Total	-	-	-	
B. Cyclone Risk Management Infrastructure				
B.1 - Cyclone Shelters				
B.1.1 Construction of Cyclone Shelters				
B.1.2 Cyclone Shelter Management Cost (Corpus Fund by state governments)				
B.2 - Roads and Bridges				
B.2.1 - Roads to cyclone shelters & habitations				
B.2.2 - Connecting roads				
B.2.3 - Bridges				
B.3 - Repair and Up-grade of Saline Embankments				
B.4 - Underground cabling				
Total	-	-	-	
C. Techcnial Support for Multi-Hazard Risk Management				
C.1 - Multi-hazard risk modeling and assessment				
C.2 - Strengthening Emergency Recovery Capacity				

C.3 - Enhancing the Capacity of Disaster Risk Management and Response in Non-Coastal States				
C.4 - Hydro-meteorological resilience action plans				
C.5 - Design of a national seismic risk mitigation program				
Total	-	-	-	
D. Project Management and Implementation Support				
D.1 - Incremental Operating Cost				
D.2 - Technical Assistance Cost				
Total				
Grand Total of Expenditures (D)				
Advances given in the current quarter (E)				
Advances adjusted in the current quarter and considered in the expenditure components above (F)				
Closing Balance of Funds (G = C - D - E + F)	-			
Notes:				
(a) Only shaded cells can be modified or data be entered therein				
(b) If report is for the quarter ended on June 30th, it should provide information on expenditure for the period of April to June and forecast for the period July to December				
(c) Closing Balance will be as per Project Books of Account, as on date of the report				
(d) Forecast is to be provided seperately for each component				
Certified that above figures are as per books of account maintained by the implementing entity				

Signature

Head of Finance, PMU

Annexure 13A-Interim Un-audited Financial Report

National Cyclone Risk Mitigation Project II
Format - 2
Quarterly Interim Financial Report

Report as on xx-xx-xxxx

(Amount in Rs. Lakhs)

			Cumulative			
Particulars	**For the Quarter (Components A,C&D)**	**For the Quarter (Component B)**	**Financial Year till date (Components A,C&D)**	**Financial Year till date (Component B)**	**Project till date (Components A,C&D)**	**Project till date (Component B)**
Expenditures by Implementing Entity						
1. National Disaster Management Authority						
2. National Institute of Disaster Management						
3. Gujarat						
4. Maharashtra						
5. Kerala						
6. West Bengal						
7. Karnataka						
8. Goa						
Total Expenditures (D)	**0.00**		**0.00**	**0.00**	**0.00**	**0.00**
Error calculator (Difference from Format - 1)	**-**		**-**	**-**		

Annexure 13B-Interim Un-audited Financial Report

National Cyclone Risk Mitigation Project II

Format - 3

Quarterly Interim Financial Report

Report as on xx-xx-xxxx

(Amount in Rs. Lakhs)

		Total	Components A,C&D (WB share 100%)	Component B (WB share 75%)
Expenditure for the quarter		-	-	-
World Bank Share of the above		-	-	-
Bank Funds received till date	I			
Total Project Expenditure till date	II	-		
World Bank Share of the above	III	-		
Funds Unutilized (I - III)	IV	-		

Notes:

(a) Total Project Uses till date ' II ', will be the same as Grand Total of Expenditure ' D ' as per Format I, Column 4

Annexure 14-Terms of Reference for External Audit
National Cyclone Risk Mitigation Project

1.Introduction

Project Background

The Government of India has initiated National Cyclone Risk Mitigation Project ('NCRMP II'), herein after referred to as the 'Project' or 'NCRMP II', with a view to address cyclone risks in the country. National Disaster Management Authority ('NDMA') under the aegis of Ministry of Home Affairs (MHA) shall implement the Project in coordination with participating States/UTs.

The key objectives of the NCRMP are as follows:

- Reduction in vulnerability of coastal States, through creation of appropriate infrastructure which can help mitigate the adverse impacts of cyclones, while preserving the ecological balance of coastal regions.
- Strengthening of cyclone warning systems enabling quick dissemination of warnings and advisories from source/district/sub-district level to the community for their timely reception and adequate response.

To begin with, NCRMP is proposed to be implemented in the States of Andhra Pradesh and Orissa. Other coastal states would be considered in further phases of the Project.

Project Components

Based on the above objectives, the Project has been divided into four components, namely:

- **Component A-** Last Mile Connectivity for the dissemination of cyclone warnings and advisories from district/sub-district level to communities. This activity will be implemented by NDMA in consultation with participating States/UTs.
- **Component B-** Construction/repair of physical infrastructure for cyclone risk mitigation. This Component will be implemented by the States/UTs.
- **Component C-** Technical assistance for capacity building on hazard risk management. NDMA and NIDM are the implementing agencies for this Component.
- **Component D-** Project Management and Monitoring applicable to all implementing agencies.

2. Objective

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the financial position of NCRMP II at ________ at the end of each fiscal year and of the funds received and expenditures incurred for the accounting period ended on....... as reported by the PFS. The auditor is expected to express an opinion on the eligibility of the expenditure under the Project.

The Project Books of Account provide the basis for preparation of the Project Financial Statements ('PFS') and are established to reflect the financial transaction with respect to the Project, as maintained by the Project Management Unit.

3. Scope

The Audit shall be carried out in accordance with relevant standards of auditing with due regard to regulations and standards of audit of the Comptroller and Auditor General of India, and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention should be paid to the following.

- All funds provided by GoI with the World Bank assistance have been used in accordance with the conditions of the relevant agreement, with due attention to economy and efficiency ,and only for the purposes for which the financing was provided.
- Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- The Project Financial Statements attached to the audit certificate must be on cash basis only.
- All necessary supporting documents, records, and accounts have been kept in respect of all financial transactions of Project including expenditure reported in IUFRs.
- Existence of proper audit trail providing linkages between the Books of Account and reports presented to the Bank.
- The Projects accounts have been prepared in accordance with consistently applied Accounting Standards in this respect and the accounting policies laid down in the Financial management manual and give a true and fair view of the financial position of the PIU for the financial year ending 31st March each year and of receipts and payments for the year ended as on that date.
- There exists a system to maintain fixed Asset Register to record all assets procured under the Project. The management has conducted a physical verification of fixed assets during the financial year and major discrepancies, if any, have been adjusted in books. The auditor may undertake physical verification of fixed assets, as deemed necessary, as per the auditing standards.

4. Project Financial Statements

The project Financial Statements should include:

- A summary of funds received, showing the World Bank and counterpart funds (State share) separately;
- A summary of expenditure under the main Project components, both for the current year and accumulated till date.

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

5. Responsibility of preparing the Project Financial Statements

The responsibility of preparing the Project Financial Statement rests with the Project staff under the guidance f auditors. However the auditors have to express a professional opinion on the true and fair view of the operations of the Project during the year and the financial position of the Project at the close of the fiscal year. The responsibility of maintaining accounting records totally rests with the 'Project Staff'.

6. Management Letter

In addition to the audit reports, the auditor will prepare a "Management letter", in which the auditor should summarise the observations on internal control issues (other than those which materially affect his opinion on the Project Financial Statements). These observations would include;

- Comments and observation on the accounting records, systems and internal controls that were examined during the course of the audit;
- Specific deficiencies and areas of weakness in systems and internal controls and recommendations for their improvement;
- Report on the level of compliance with the financial/internal control, procedures as documented in the financial manual of the Project; and
- Matters that have come to the attention during the audit which might have a significant impact on the implementation of the Project.

The observations in the management letter must be accompanied by the implications, suggested recommendations from the auditors and management comments on the observations/ recommendations from the management.

7. Audit Opinion

Besides a primary opinion on the PFS, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn and the extent to which the Bank can rely on IUFRs as a basis for loan disbursement.

The financial statements, including the audit report, should be received by the Bank no later than six months after the end of the accounting period to which the audit refers. The auditor should submit the two copies of the audited accounts and audit reports to the PIU (/PMU).

The auditors' report shall also contain other statutory certificate (where applicable) such as certifications relating to societies registered under "Societies Registration Act, 1860".

8. General

The auditor should be given access to all legal documents, correspondence, and any other information, which is deemed necessary by the auditor, relating to the Project. The auditor should obtain confirmation of amounts disbursed and outstanding if any from GoI. It is highly desirable that the auditor become familiar with a copy of the Bank's document on Financial Management Practices in the World Bank financed Investment Operations which summaries the Bank's financial reporting and auditing requirements. The auditor should also be familiar with the Bank's Disbursement Manual. Both documents will be provided by the Project staff to the auditor. The auditor would also be provided with copies of the legal agreements, and related manuals of the Project. The auditor will maintain working papers in a systematic manner and make them available to GoI and World Bank if required.

Annexure 15 – Circular of CAG on Terms of Reference for audit of World Bank assisted Projects

No 201-Audit (EAP)/1-2007

भारत के नियंत्रक-महालेखा परीक्षक का कार्यालय

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

दिनांक
Date May 14, 2009

To,

Mr. L. Kojima,
Senior Financial Management Specialist,
World Bank,
70, Lodi Estate,
New Delhi-110 003.

Sub: Standardization of Terms of Reference (TOR) for audit of the World Bank assisted Projects.

Sir,

Attention is invited to this office D.O. letter No.102-Audit (EAP)/1-2007 dated March 5, 2008 addressed to Ministry of Finance (Department of Economic Affairs) and copy endorsed to World Bank on the subject cited.

2. In view of the fact that Ministry of Finance (Department of Economic Affairs) have now circulated the Standardized TOR for information and necessary action to all Union Ministries, States & Union Territories etc vide their OM.F. No. 17/7/2006-FB-II dated March 20, 2009, we have also requested all our field audit offices vide this office circular letter No 167-Audit(EAP)/1-2007 dated 28.4.2009 to undertake audit certification of all new World Bank assisted projects keeping in view the provisions contained in the standardized TOR. In this context a copy of this office D.O. letter dated 5.3.2008 alongwith a copy of Standardized TOR has also been enclosed for their information and guidance.

3. A copy of this office circular dated 28.4.2009 and our reference dated March 5, 2008 alongwith the standardized TOR is also enclosed for information.

Encl: As stated.

Yours faithfully,

M. S. Subrahmanyam

(M.S. Subrahmanyam) 14/5/09
Director (Audit)

FINANCIAL MANAGEMENT
1? MAY 2009
19 MAY 2009
NEW DELHI

IRIS

10, बहादुरशाह ज़फर मार्ग, नई दिल्ली-110124
10, Bahadur Shah Zafar Marg, New Delhi-110124

Annexure 16 – Circular of Aid, Accounts and Audit Division regarding Report based disbursement.

1

CD'S Incoming Mail	
Date:	Sept 5 2008
For action	F.M.
cc:	Ben... Sallé.
	CD's No

No. AAAD/Disb. II/ IBRD/ FMR/ 2007
Ministry of Finance
Department of Economic Affairs
Aid Accounts & Audit Division
Disbursement I & II Sections
Janpath Bhawan, 'B' Wing
Janpath, New Delhi
***

2nd September, 2008

OFFICE MEMORANDUM

It has been observed that projects selected for FMR based disbursements are facing problems in compilation and reporting the expenditure to the World Bank. Therefore, revised guidelines are being issued in consultation with World Bank, which are as under:-

1. **New Projects:**
At time of initiation of a new project the Task Team Leader (TTL)/ Financial Management Specialist (FMS) from the World Bank may organize a meeting with CAAA including participation of the project finance staff to clarify requirements and procedure relating to FMR based disbursements. Alternatively this could also be done in case the project organizes a 'Project Launch Workshop' where CAAA staff may be invited. Further, the World Bank has suggested that if CAAA can designate a specific officer as the point person for each project, then the Project Staff as well as the Task Team will be able to regularly liaise with him/her for claim submission. In this regard a list of officers will be provided to the World Bank.

2. **Approval of FMRs:**
It is advised that the project send a copy of the FMR in advance to World Bank TTL before submitting to CAAA for review and comments. This procedure may be followed at least for the first 2 – 3 quarters in case of new projects. In this regard as suggested by World Bank, CAAA obtain a confirmation from projects that the Reports have already been sent to the Task Team Leader in the Bank and their comments incorporated/ approval obtained before submission to the CAAA.

3. **Advance:**
If the World Bank and the project are in disagreement on a FMR (e.g. amount of forecast for the two quarters) then World Bank should try its best to disburse what it considers as appropriate; rejection of the entire Withdrawal Application should be the last resort. The World Bank agreed that the amount of the advance considered reasonable be immediately disbursed by the Bank. However, the calculation of advance will have to be as per the terms agreed and forming part of the loan documentation.

4. **Retroactive financing:**
In such cases, a separate, one time, FMR will be submitted by the project covering eligible expenditure; this will not include any forecast. Alternatively, the regular FMR may include a separate column for the retroactive period.

FINANCIAL MANAGEMENT

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5. **Mixed IBRD and IDA Loans/Credits:**
In case a Project gets a mix of IBRD and IDA Funds, first liking will be a separate FMR to be prepared by the project for each component. Alternatively they have to clearly identify each requirement in the same format.

6. **FMR with forecast:**
In case a FMR based application is received with a forecast, then the same will be processed by the CAAA through two RFs; the first will liquidate earlier Special Account Advance with the reported expenditure and the second will modify the Special Account Advance based on the forecast. The exchange rate will be same in both the cases i.e. the rate on the date of debiting the special account in RBI.

7. **Details in CAAA Systems:**
CAAA will maintain details as per the various categories/components as mentioned in the Loan/ Credit Agreement. Separate line items will be created in case separate disbursement percentages are mentioned against each. However, in context of the FMR formats which usually might be more detailed, the same level of details may not be maintained as part of the CAAA system and the withdrawal application.

8. **Summary Sheet:**
FMR formats are generally prepared as per the activities of the project. It may not be possible to standardize these formats. To resolve this issue, an Abstract (Summary) Sheet has been prepared which is enclosed. The project authority will submit this sheet along with other formats while claiming expenditures.

All the stakeholders are requested to follow these guidelines for smooth and better functioning of the FMR based projects.

This issue with the approval of CAA&A and Joint Secretary (FB), DEA, North Block, New Delhi.

(S.D. Sharma)
Joint Controller

Encl a/a

All the Projects implementing FMR based Projects

Copy for information:

(1) Joint Secretary (Fund Bank), Department of Economic Affairs, Ministry of Finance, North Block, New Delhi.

(2) All Directors of Fund Bank Division, DEA, M/O Finance, North Block, New Delhi.

(3) Mr. Rachid Benmessaoud, Acting Country Director, World Bank, New Delhi

(4) Ms. Samvita Reddy, Finance Officer, World Bank, Chennai Office, Chennai

19/05

(S.D.Sharma)