



Guidelines for Internal Audit
of
Pradhan Mantri Gram Sadak Yojana

National Rural Roads Development Agency
Ministry of Rural Development
Government of India



Pradhan Mantri Gram Sadak Yojana

Guidelines for Internal Audit

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GLOSSARY OF ABBREVIATIONS

ADB	Asian Development Bank
BG	Bank Guarantee
CA	Chartered Accountant
CVC	Central Vigilance Commission
DO	Divisional Officer
DPR	Detail Project Report
DRDA	District Rural Development Authority
EC	Evaluation Committee
EO	Empowered Officer
IBS	Interest Bearing Securities
MB	Measurement Book
MORD	Ministry of Rural Development
MOU	Memorandum of Understanding
NABARD	National Bank for Agriculture and Rural Development
NQM	National Quality Monitor
NRRDA	National Rural Roads Development Agency
OMMAS	Online Management Monitoring and Accounting System
PIU	Programme Implementation Unit
PMGSY	Pradhan Mantri Gram Sadak Yojana
PWD	Public Works Department
RFP	Request for Proposal
SBD	Standard Bidding Document
SOE	Statement of Expenditure
SRRDA	State Rural Roads Development Agency
TOR	Terms of Reference

**GUIDELINES FOR INTERNAL AUDIT OF STATE RURAL ROADS
DEVELOPMENT AGENCY (SRRDA) AND PROGRAMME
IMPLEMENTATION UNIT (PIU) UNDER PRADHAN MANTRI GRAM SADAK
YOJANA (PMGSY)**

I. INTRODUCTION

1. The internal audit in an organization aims at helping the management to achieve the organizational objectives, goals and targets. It involves analyzing the business processes, procedures and activities of the organization with the objective of highlighting the problems being faced and recommending solutions to the management. The scope of work of Statutory Auditors is basically confined to that of Balance Sheet and covers statements of accounts only and; therefore, regularity and propriety dimensions of the transactions remain almost uncovered.
2. PMGSY Accounts Manuals (Accounts Manual-Programme Fund and Administrative Expenses Fund Accounts Manual) provide that the SRRDA will appoint internal auditors as a management aid to ensure the true and fair record of accounts. In the absence of internal audit the possibility of committing irregularities or misappropriation/diversion of funds, etc may not be ruled out, besides the issues relating to inefficiency and ineffectiveness remaining unaddressed. Internal audit helps in identification of the gaps in implementation of the Programme and taking timely corrective measures to improve the financial and project management. Reports of the Statutory Audit and Notes on Accounts submitted by the SRRDAs have revealed several weaknesses in the book keeping and financial management. Therefore, the provisions relating to internal audit in the Accounts Manual need to be followed in letter and spirit.
3. In order to ensure both accuracy in accounts and efficiency in the operation of the Finance Wing of the State Agencies, Ministry of Rural Development (MoRD), Government of India vide letter no. P.17017/4/2009-RC dated 30th September, 2009 has decided to make the Internal Audit of SRRDAs and PIUs under PMGSY mandatory. The coverage of internal audit of the State Agencies is broad and may involve topics such as the efficacy of operations, reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with rules, regulations and laws. Internal audit is required to ascertain the compliance with established objectives, policies, plans, procedures and reliability of management data developed within the State Agencies and

make recommendations for improvement, where necessary.

4. The scope and functions of the Internal Audit will depend on the nature of transactions, number of PIUs in a State, establishment strength, number of contracts, nature and quantum of expenditure, etc.
5. The SRRDAs will arrange to carry out Internal Audit and furnish the report of internal audit to the MoRD and National Rural Roads Development Agency (NRRDA) on regular basis. The Audit Officer/Accounts Officers/Internal Auditors arrange for the periodical audit and local inspection of the accounts of SRRDA and PIUs and the Divisional Officer is responsible for making available the initial accounts and other connected records for audit and inspection. Inspecting Officers are required to discuss the drafts of their reports with the heads of the office inspected, before submitting them to the respective heads of their offices. And for this purpose, it is desirable that the head of the office inspected should be present at the time of inspection unless his presence is urgently required elsewhere.
6. The guidelines detailed in the ensuing paragraphs regulate the selection and working of the Internal Audit.

II. GUIDELINES FOR SELECTION OF INTERNAL AUDITOR

1. State Governments may have their own internal audit establishment and may make use of it for carrying out the internal audit of SRRDA and PIUs under their administrative control. Alternatively, the State Agencies may outsource the internal audit work to a Chartered Accountant Firm(s).
2. Where the State decides to outsource the internal audit work, the Accounts Manuals *ibid* provide that the internal auditor should have experience of Public Works Audit. The SRRDA in the State will identify a competent organization for this task from a panel maintained by the Comptroller and Auditor General of India (C&AG). The overall responsibility for internal audit shall be with the Chief Executive Officer of the Agency.
 - i) for outsourcing (selection of Internal Auditor), the SRRDAs may make use of the following appended documents:
 - a) Format for inviting Requests for Proposal (RFP) detailing the procedure for selection of internal auditors (Chartered Accountant firm) at Appendix 1,

b) Format for Terms of References (TOR) at Appendix 2,

c) Checklist for Internal Audit at Appendix 3; and

d) Format for Agreement at Appendix 4.

ii) Internal Audit Fee towards the internal audit services rendered by CA firm will be paid from the Administrative Expenses Fund Account of PMGSY. The expenditure on fees will be classified under the head “54.08-Outsourcing of Execution and Management Function”.

III. SCOPE OF INTERNAL AUDIT

1. The SRRDA and PIUs shall be within the jurisdiction of Internal Audit. The Internal Audit will conduct periodic financial review of the PMGSY to assess the operation of the project financial management system, including review of internal control mechanisms, books of accounts, registers, and other records as well as effectiveness of the procurement process in the SRRDA and PIUs. The scope of internal audit includes examination and evaluating the policies, procedures and system which are in place in the SRRDA to ensure:-

- (i) Reliability and integrity of information compliance with the PMGSY Guidelines;
- (ii) Plans, procedure, laws and regulations;
- (iii) Safeguarding assets, economical and efficient use of resources;
- (iv) Accomplishment of established objectives and goals for operations or programme; and
- (v) Apprise the management about effectiveness of internal control and other areas of interest and concern.

IV. OBJECTIVES OF INTERNAL AUDIT

The objectives of Internal Audit are to:-

1. ensure that the accounting and financial management systems remain reliable and effective in design and to assess the extent to which they are being followed;
2. review the efficacy, adequacy and application of accounting, financial and operating controls and thereby ensure the accuracy of the books of accounts;

3. verify that the system of internal check is effective in design and operation in order to ensure the prevention of and early detection of defalcations, frauds, misappropriations and misapplications;
4. identify areas of significant inefficiencies in the existing systems and suggest necessary remedial measures;
5. confirm the existence of financial propriety in all decision and verify compliance to government and statutory requirements;
6. confirm that the agreed procurement procedures and arrangements have been followed for works, goods and services;
7. check that all expenditure incurred from Programme Fund Account and Administrative Expenses Fund Accounts has the necessary supporting documents and have been incurred in accordance with the PMGSY/Government of India rules and relevant financing agreement with Asian Development Bank (ADB) ;
8. Confirm that Bank Authorization given to PIUs for incurring expenditure under the project is used for purpose intended to. To establish this, the auditor should visit PIUs and conduct such audit/tests as may be deemed appropriate and necessary for the purpose of the audit;
9. that adequate records are maintained regarding the assets created such as Laboratory Equipments, IT Equipments, etc. and assets acquired by the project, including details of cost, identification and location of assets; and
10. that physical verification of assets is being carried out with due diligence.

V. EXTENT AND COVERAGE OF INTERNAL AUDIT

The extent and coverage of examination of accounts /records will be as follows:

1. The internal auditor shall exercise such checks of accounts and records as are necessary for providing assurance on the compliance with the Programme Guidelines, relevant provisions/ rules and procedures in respect of awarded and on-going contracts. He will exercise 100% check in respect of the vouchers relating to the month having maximum number of transactions and all documents/registers/books etc. in respect of one completed contract including Liquidated Damages. All contracts awarded since last audit will be examined by him. In respect of maintenance of roads, all records relating to one contract completed at least a year back will be examined by the auditor. This is the minimum percentage of check required to be exercised by internal audit,

however, the internal audit may increase the coverage of audit, if scrutiny of the accounts and records suggest so.

2. The auditor will vouch 50% of the cheques payment transactions and 100% of cash payment vouchers, bank statements and transfer entry vouchers in respect of the months selected.
3. A list showing the months / year for which vouching has been carried out shall be mentioned in the report.
4. Routine errors of omissions or commissions noted during the course of internal audit may be rectified on the spot.
5. The Internal Auditor Firm shall check the records of PIUs/SRRDA for the period for which the assignment has been approved by the Management. However, records of earlier period can be checked, if required, wherever necessary.
6. The internal audit should pay special attention to see that:-
 - (i) Bank Reconciliation Statement till the month prior to audit is duly been carried out by the PIUs/ SRRDA;
 - (ii) The amount of Statutory / Tax deducted at source have timely been remitted to the accounts of the concerned tax authorities;
 - (iii) The Bank Guarantees tendered by the contractor have been posted in Register of Bank Guarantees ;
 - (iv) The Register of Bank Guarantee has been reviewed each month by the Officer-in-charge of PIU for timely renewal and release, etc;
 - (v) the Bank Guarantees are effective throughout till the amount of advance has been fully recovered from the contractor against which the Bank Guarantee was tendered by him;
 - (vi) PMGSY funds have been utilized for the purpose for which they were sanctioned; and
 - (vii) the monthly account of March should have a note showing the details of Bank Guarantees or Interest Bearing Securities held by the PIUs and their effectiveness
7. The Internal Auditor shall comment on the effectiveness of the mechanism available in the PIUs/ SRRDA for ensuring compliance with observations of the earlier audit reports. He shall report on the corrective action taken on the observations of the earlier audit reports and also list out the serious observations made by Statutory Audit/AG/C&AG as the case may be which have not yet been

complied with.

VI. DUTIES OF INTERNAL AUDIT

The duties of the internal audit organisation will, inter-alia, include the following :-

1. Study of accounting procedures prescribed PMGSY Accounts Manual- Programme Fund, PMGSY Administrative Expenses Fund Accounts Manual, PMGSY Programme Guidelines, PMGSY Operations Manual and PMGSY Conditions of Contract (SBD) so as to ensure that they are correct, adequate and free from any defects or lacunae;
2. Study the PMGSY Standard Bidding Document (SBD) with a view to ensure that contracts have been drawn strictly in accordance with SBD and payments to contractors for work done , refund of security deposit, recovery of advances/ liquidated damages etc; have regulated as per contract;
3. Watch over the implementation of the prescribed procedures and the orders issued by MoRD and NRRDA from time to time;
4. Scrutiny and check of payments and accounting work of the finance wing of SRRDA and PIUs;
5. Investigation of important arrears in accounting and other connected records;
6. Coordination with SRRDA. regarding internal audit procedures;
7. Periodical review of all accounts records of general office management procedures adopted by the heads of offices locally where these have financial and accounting implications so as to suggest tightening up administrative and financial control, savings in expenditure or streamlining of accounting; and
8. To apprise the management regarding status of objections taken in the Management Letter and Notes on Accounts issued by Statutory Audit and para of C&AG Audit Report ;

VII. CHECKS TO BE EXERCISED BY INTERNAL AUDIT

1. The internal auditor will conduct a general review of all the accounts records maintained by an office since the last inspection or incase of new units, since the formation of the office. Apart from the general review, it should also conduct a

detailed check of accounts records of one month in a year to be selected by the Chief Executive Officer, SRRDA. The percentage of bills/vouchers/cases etc. other than those pertaining to the accounts records of the selected month to be checked in detail by internal audit as part of the general review of the accounts of an office as mentioned in the Extent and Coverage of Internal Audit. The checks to be exercised will include the following:-

- (i) Detailed scrutiny of accounts records maintained in PIUs and SRRDA given in PMGSY Accounts Manual- Programme Fund and PMGSY Administrative Expenses Fund Accounts Manual;
 - (ii) Checking of contractor /supplier bills etc. in accordance with the procedure laid down in PMGSY Accounts Manual and Condition of Contract;
 - (iii) Verification of the extent and frequency of control and checks exercised by the head of office, in order to locate any lacunae in procedures whereby frauds or defalcations may be possible either individually or in collusion. Where necessary, steps to remove such lacunae will be suggested; and
 - (iv) Scrutiny of sanctioning of procurement procedure and purchase procedures in the office inspected, so as to ensure that they are free from any defect or lacunae;
2. Checklist for Internal Audit is given in Appendix 3. These are illustrative and not exhaustive. However, internal auditor may look into the areas based on his own analyses of the transactions.

VIII. PERIOD OF INTERNAL AUDIT

The internal audit will be undertaken on half yearly basis viz April to September and October to March. The internal audit report for the period from April to September will be submitted to the management of SRRDA latest by 31st January (of the following year) and that of October to March latest by 31st July (for example: Internal Audit Report for the period April, 2009 to September, 2009 will be submitted latest by 31st January, 2010 and that of October, 2009 to March 2010 latest by 31st July, 2010).

Where the State do not have its own establishment for internal audit and decide to outsource it to a Chartered Accountant Firm, the award letter of Internal Auditor issued by the management shall contain details of date of commencement and completion of

internal audit work in each stage, the date by which the reports are to be submitted and phase-wise fees payable. It shall specify the level of inspecting officer, minimum period he /she will visit each PIU in each phase and the minimum qualifications of the members of the audit team. The appointment of the internal auditor shall initially be for one year which may be extended for another year depending upon the performance of the auditor in the first year. The performance of the internal auditor will be evaluated by the Audit Committee as prescribed in the PMGSY Accounts Manual. The decision of the Audit Committee will be ratified by the Executive Committee of the SRRDA.

IX. DURATION OF INTERNAL AUDIT

The duration of internal audit will be based on the work load of each PIU/SRRDA. In selecting the Internal Audit, the Internal Auditor should draw up programme in consultation with the Chief Executive Officer of the Agency. The duration may be in the range of 3 to 5 days per PIU and 7 days for SRRDA for transactions in each half year. The above norms are tentative, however, the Internal Auditor may make its own assessment for qualifying their rates on the time required for internal audit of each PIU (based on the number of PIUs and their locations) and the SRRDA. Duration of assignment of each PIU may be assessed taking due allowance for travel time to the locations.

X. PROGRAMME FOR INTERNAL INSPECTION

The programme for internal inspection for each of each PIU and SRRDA will be chalked out by the Internal Auditor and got approved by the Chief Executive Officer of SRRDA. Timely intimation of the proposed visit of the inspection party will be sent to officer in-charge of PIU concerned.

XI. RECORDS, DOCUMENTS TO BE MADE AVAILABLE TO THE INTERNAL AUDIT TEAM

The Internal Auditor will inform in writing the head of PIU and Financial Controller in SRRDA to be inspected of the dates of inspection well in advance. A list of records to be examined during internal audit shall also be prepared by Internal Audit and sent to them, alongwith the notice of inspection so that these are kept ready by him before the arrival of the party.

The accounts records vouchers, agreement(s) etc. maintained by the PIUs/SRRDA will be made available promptly to the internal audit party.

Note 1 : The payments made by a Drawing and Disbursing Officer will be verified by the internal audit team with reference to the counterfoils of cheques, copies of the bank statements, Bill Register and office copies of the paid vouchers.

XII. DRAFTING AND PROCEDURE FOR SUBMISSION OF INSPECTION REPORTS

1. The inspection report should be couched in polite language. Offensive or strong words, sarcastic language etc. should on no account figure in the report. No suppositions, assumptions or allegations should be included in the report. Only facts should be mentioned and inevitable conclusions drawn. There should be no reference to responsibility being fixed for any irregularity; it is for the administrative authorities to take action in the matter. The inspection report will be drawn in two parts as below:

Part I – It will include –

(a) Introduction :

- (i) Name of the PIU or SRRDA
 - (ii) Name of the head of PIU or SRRDA
 - (iii) Name of the Financial Controller or Divisional Accountant
 - (iv) Date from which Financial Controller or Divisional Accountant is posted in the SRRDA or PIU.
- (b) Outstanding objections from the previous report (in this part, are old outstanding objections are reproduced in full, every alternate year alongwith upto date position. This is done to bring the outstanding paras, pointedly to the notice of all concerned for facility for watch an expeditious disposal).

The old outstanding objections are to be replied separately through the respective old inspections report, which should not be treated as closed till all the objections are settled.

(c) Schedule of persistent irregularities

Part II – Contains two sections “A” & “B”. Section “A” will include all important irregularities i.e. irregularities involving recoveries, questions of violations of principles,

losses etc. Section “B” contains irregularities, though not major, which the internal auditor wants to bring to the notice of higher authorities.

2. The internal audit report should be structured in a manner to provide the following:
 - (i) Audit observations;
 - (ii) Implications of the observations;
 - (iii) Suggested recommendations;
 - (iv) Management’s comments/agreed actions;
 - (v) Status of action taken on the previous recommendations;
 - (vi) Outstanding para in the internal audit report should be reviewed and arrangement made for their early settlement. The internal auditor should take up all outstanding para pertaining to PIUs/SRRDA during its next inspection and settle them on the spot. Where such settlement is not possible, the outstanding points with their latest position should be incorporated in the new report in thereby the old report(s) should be considered as closed;
 - (vii) Routine errors or omissions or commissions noticed during the course of inspection should be got rectified on the spot;
 - (viii) The six monthly inspection reports should be discussed with the Head of the Office inspected and their comments, if any, suitably incorporated in the report;
 - (ix) The inspection reports should be issued to PIUs after being vetted at SRRDA. One copy of the inspection report will be issued to the Head of Office of PIU inspected and another copy will be given to the SRRDA. The inspection report of the accounts /record etc. concerning SRRDA shall be handed over to the Executive Officer of the SRRDA; and
 - (x) The internal auditor should prepare and submit a Consolidated Report – State i.e. all PIUs and SRRDA on a six monthly basis, summarizing the individual unit wise reports and highlighting the critical issues which require the immediate attention of the SRRDA. The Consolidated Report – State shall be prepared in triplicate.
 - (xi) The report of the internal auditor will be examined by an Audit Committee to be constituted by the Nodal Department responsible for implementation of PMGSY in the State and compliance to it should be regularly monitored as prescribed in the Accounts Manuals of PMGSY. The decisions of the Audit

Committee should be ratified by the General Body of the SRRDA.

- (xii) The SRRDA will retain one copy of the report and send one copy of the report alongwith his comments to MoRD and NRRDA respectively.

XIII. REPLIES TO THE INTERNAL AUDIT REPORTS

The PIUs/SRRDA shall base his replies to the internal audit reports on his knowledge, as far as possible. It is not enough to pass on the explanation of a subordinate; reports prepared in this manner may lull suspicion for the time being, but lead to greater irregularity afterwards. The PIU will forward the reply to the inspection report to the Superintending Engineer in-charge of work with his comments for onward transmission to SRRDA.

XIV. PROCESSING OF INTERNAL AUDIT REPORT

The Superintending Engineer will process the internal audit report. He shall pass orders in respect of matters which he is competent to deal with finally and record his remarks (with a note of the action taken on all other points before returning the documents to the SRRDA).

Once a transaction has been entered in the Audit Note or otherwise challenged in one or the other documents the responsibility for having the objection removed will devolve upon the Officer in-charge of the PIU and internal auditor is required to report to the Chief Executive Officer of SRRDA all important items and any serious delays in the adjustment of individual objections.

Note: An audit objection is usually removed by obtaining the requisite sanction, by making the necessary recovery, by correcting or completing the relevant account or voucher by furnishing the necessary documents or information, or by otherwise securing compliance with the provisions of a specified rule. In cases in which a protest is made against an audit objection as being incorrect, the objection should be held to be in force unless a formal intimation of its withdrawal is received from the Internal Auditor.

The Internal Auditor will place under objection any transaction coming to his notice which is not covered by adequate sanction or involves an excess thereon or other deviation. In some cases, the Officer in-charge of PIU may have/ already taken action to regularise the transactions or the excess (if any) over sanction plus any further excess that may be anticipated, may be within his own powers of sanction without preparing a

revised estimate, and he may have accorded the necessary formal approval to it. Yet, if the necessary intimation of sanction does not reach the Internal Auditor when the PIU accounts in which the irregular transaction appear are being inspected, the Internal Auditor will raise the objection, as he is not authorized to assume that the necessary sanction has been accorded. The Officer in-charge of PIU is required to communicate to Internal Auditor and to give it, without waiting for the receipt of the Inspection Report. The intimation should have the necessary information in regard to transactions for which, within their knowledge, adequate authority does not exist. A single note or statement, prepared monthly and signed by the Officer in-charge of the PIU himself, will ordinarily suffice, in respect of transactions brought to account in the Monthly Account, but, if it cannot precede or accompany the Monthly Account, it should be sent to the Internal Auditor within a week of the despatch of the account.

Note 1: The object of this rule is to obviate the issue of unnecessary audit objections, but a reduction in the number of objections can be effected only by observing the requirements of the financial and other rules bearing on the transactions, and by taking timely action to accord or obtain, as the case may be, such sanction or order as may be required in cases in which a deviation from rules had occurred.

Note 2: The Divisional Accountant is responsible (i) for bringing prominently to the notice of the Divisional Officer at least once a month, an irregular transactions on which action has not already been taken by the latter at the instance of Sub-Divisional Officers or on his own, and (ii) or giving effect to the provisions of this paragraph in accordance with the procedure which the Divisional Officers may have desired to be observed in this connection.

XV. GENERAL

The auditor will be given access to all legal documents (agreements), correspondence, financial manuals, notices from the Project Management/State Implementing Units and any other information associated with the project as deemed necessary by the auditor.

The Internal Auditor Firm should familiarize themselves with the procedures laid down in the following publications:

- (i) the tripartite agreement on Banking Arrangements, guidelines for banking arrangement codified in the PMGSY Programme Guidelines,
- (ii) accounting system of PMGSY codified in the PMGSY Accounts Manual Programme Fund and PMGSY Administrative Expenses Fund Accounts

- Manual,
- (iii) PMGSY Supplemental Operation Manual,
 - (iv) PMGSY Online Management, Monitoring and Accounting System.
 - (v) Standard Bidding Document.

The Internal Auditor Firm entrusted with the job of internal audit should deploy some personnel who are conversant with Public Works Account System of Central PWD/State PWD at Divisional level.

XVI. PURSUANCE OF TEST AUDIT NOTES ISSUED BY INTERNAL AUDIT

In order to keep a watch over the settlement of audit objections included in the Test Audit Notes issued by the Statutory Audit Offices, the Internal Audit, the SRRDA will maintain a register in the form given below, setting apart separate folios for each PIU. The progress made towards the settlement of outstanding objections should be reviewed quarterly and appropriate further action taken to ensure their speedy settlement. The compliance with the objections reported to have been made by PIUs should be verified during next internal audit of the concerned PIU by the internal audit party. The register will be produced to Statutory Audit Parties, whenever asked for, for verification of settlement of the objections raised.

XVII. REGISTER OF INTERNAL AUDIT REPORT

Name of the PIU

Name of the Internal Auditor Firm.....

Sl.No.	Particulars of Letter vide which Internal Audit Report received	Period of accounts covered by Internal Audit	No. of objections raised	S.No. of the objections settled	Paras outstanding	Status of Action taken	Remarks
1	2	3	4	5	6	7	8

Request for proposal(RFP)
Postal address of SRRDA

Date

To

_____,
_____,
_____,
_____.

Subject: **Internal Audit of Pradhan Mantri Gram Sadak Yojana (PMGSY) in the State of ----- Request for Proposal.**

Dear Sir,

1. You are hereby invited to submit Technical and Financial Proposals for Internal Audit of Pradhan Mantri Gram Sadak Yojana Project in the States of -----
----- (Name of the State) which could form the basis for future negotiations and ultimately a contract between your firm and State Rural Roads Development Agency (*Write complete name and postal address of State Rural Roads Development Agency, Telephone No., Fax No. and email ID*). You may submit your proposal for Internal Audit of PIUs functioning under the Administrative control of (Name of SRRDA). If the State is split into two zones namely Zone 1 (Name of the PIUs as per list) and Zone 2 (Name of the PIUs as per list), you may submit your proposal for one or both the zones under administrative control of the SRRDA, depending upon your capacity and manpower.
2. Details of the services are given in the Terms of References (TOR).
3. The following documents are enclosed to enable you to submit your proposals:
 - (a) Form No. T-1, T-2, T-2A, T-3, F-1& F-1A.
 - (b) List of PIUs /SRRDA and their location (Annexure 1)
 - (c) Terms of Reference (TOR) [Appendix 2]
 - (d) A Sample Form of Contract under which the Internal Audit will be carried out. (Appendix 4).
 - (e) Reimbursement Claims of the ADB Funded PMGSY Works (Schedule 1)
 - (f) Item-wise sample sizes for Internal Audit (Schedule 2)

(g) Check List for Internal Audit (Appendix 3)

4. Clarification and Amendments to RFP Documents

4.1 You may request for a clarification on any of the RFP documents up to fifteen (15) days (*in case bids are to be received after 30 days of issue of RFP*) prior to the proposal submission date (but prior to pre bid meeting). Any request for clarification must be sent in writing to the address as indicated in para 1 above. These would be clarified at the pre-bid meeting without identifying its source.

4.2 Pre-bid meeting

4.2.1 The bidder or his official representative is invited to attend a pre-bid meeting, which will take place on _____ at 3.00 pm at the above venue.

4.2.2 The purpose of the meeting will be to clarify issues and to answer questions on any matter related to the RFP that may be raised at that stage including the clarifications requested under 4.1 above.

4.2.3 Non-attendance at the pre-bid meeting will not be a cause for disqualification of a bidder.

4.3 Amendment to RFP

At any time before the submission of proposals, the SRRDA may, whether at its own initiative, or in response to a clarification requested by a short listed internal auditor firms, or in response to queries raised at the pre-bid meeting amend the RFP by issuing an addendum. The addendum shall be sent to all short listed Internal Auditor firms and will be binding on them. To give short listed Internal Auditor firms a reasonable time in which to take an amendment into account in their proposals, the SRRDA may at its discretion, if the amendment is substantial, extend the deadline for the RFP submission.

5. Submission of Proposals

5.1 The proposals shall be submitted in two parts, viz., Technical and Financial Proposals in the forms provided in formats T-1,T-2, T-2 A, T-3, F-1and F-1A as referred to in para 8 and 9. The proposals must be sent to the address indicated in para 1 and received by the SRRDA not later than the time and date indicated in para 5.2 or any extension to this date in accordance with para 5.3.

5.2 The "Technical" and "Financial" Proposals must be submitted in two separate sealed envelopes (with respective marking in bold letters). The first envelope marked "**TECHINICAL PROPOSAL**" should include the description of the bidder's general experience in the field of the assignment, the qualification and

competency of the personnel proposed for the assignment in response to suggested Terms of Reference (Annexure II) in Forms T-1, T-2, T-2 and T-3. The first envelope should not contain any cost information whatsoever. The second envelope marked '**FINANCIAL PROPOSAL**' should contain the detailed price offer in Form F-1 and F-1A for the internal audit. Both the sealed envelopes should again be placed in a sealed cover which will be received in the office of the SRRDA upto _____ hours on _____

- 5.3 At any time before the submission of Proposal, the SRRDA may amend the RFP by issuing an addendum in writing or by standard electronic means. The addendum shall be sent to all the bidders and will be binding on them. The bidder should acknowledge receipt of all amendments. To give bidders a reasonable time in which to take an amendment into account in their proposals, the SRRDA will, if the amendment is considered as materially substantial, extend the deadline for the submission of Proposal.
- 5.4 The SRRDA shall not be responsible for misplacement, loss during transit or premature opening of envelope. However, the inner envelopes containing Technical and Financial Proposals is marked or sealed as per Para 5.2, such proposal would be considered even though outer envelope is torn or not sealed.

6. Instructions to Bidders

- 6.1 The bidder shall bear all costs whatsoever associated with the preparation and submission of their Proposals. The costs might include site visit, collection of information, and if selected, attendance at bid opening and contract negotiations.
- 6.2 The SRRDA is not bound to accept any proposal and reserves the right to annul the selection process at any time prior to contract award, without thereby incurring any liability to the bidder.
- 6.3 In preparing their proposals, the bidder is expected to examine in detail the documents comprising the RFP. Material deficiencies in providing the information requested may result in rejection of a Proposal.
- 6.4 A list of the PIUs and SRRDA (which will be audited) indicating their locations is given in **Annexure-I**
- 6.5 Turn over of SRRDA for financial year (previous year's) is Rs.....(Rupees.....) Lakhs {to be filled in by SRRDA rounded off in nearest Lakh of Rupee}.
- 6.6 In case more than one Internal Auditor firms are considered to be appointed in

any SRRDA for a group of PIUs, the selection criteria would be total Turn over of such group of PIUs including in that particular group and not the Turn over of the SRRDA.

7. Opening of Technical Proposal

- 7.1 An Evaluation Committee (EC) will be constituted by the SRRDA. The suggested composition of the EC is Chief Executive Officer (CEO), Financial Controller of the SRRDA and a representative from the Finance Department or an experienced Financial Adviser from a Department/Autonomous Body of the State Government. The Proposals (first envelope containing Technical Proposals only) will be opened by EC in the SRRDA office at _____ hours on _____. It may please be noted that the second envelope i.e Financial Proposals containing the Price Bid will not be opened until technical evaluation has been completed and the result approved and notified to all the bidders. The bidder's representatives shall be encouraged to be present at the time of opening of the Technical Proposal. The bidders' representatives, who choose to attend the bid opening proceedings, will sign an Attendance Sheet.
- 7.2 The SRRDA shall notify those bidders whose proposals did not meet the minimum qualifying marks or were considered non-responsive to the Letter of Invitation and Terms of Reference, indicating that their Financial Proposals will be returned unopened after completing the selection process. The SRRDA shall simultaneously notify the bidders that have secured the minimum qualifying marks, indicating the date and time set for opening of Financial Proposals. The notification may be sent by registered letter or electronic mail.

8 Evaluation of Technical Proposal

The Technical Proposal will be evaluated using the following criteria:

The Internal Auditor firm's relevant experience in audit of Government or Autonomous Bodies of the Central /State Government or Public Sector Undertakings. The Internal Auditor firms should furnish year-wise financial turnover of the each organization audited by them during the last three years. The Internal Auditor firms must have audited accounts of three autonomous bodies of Central or States Governments in the last three years (.....,,). The total of yearly financial turnover of all organizations audited during any one year of last three years should be atleast 50% of the financial turnover of State Rural Roads Development Agency or groups of PIUs

mentioned in para 6.6 during the preceding financial year failing which the bidder would be treated disqualified. The Internal Auditor firms should provide the aforesaid information in **Form No. T-1, T-2, T-2A & T-3.**

***Explanatory Note:** In case the Internal Auditor firm has audited any unit(s) or division(s) of any organization then the turnover of that particular unit (s) or division n(s) should be shown in Form T-1 and not the turn over of the organization as a whole.*

8.1 Criteria for Evaluation of Technical Proposal.

The following criteria and point system shall be followed:-

(A)	Financial Turn over	25 points.
(B)	Qualifications and experience of key personnel on the rolls of the Internal Auditor Firm	30 points.
(C)	Capacity of the Internal Auditor Firm	40 points.
(D)	Support Staff possessing experience of public works audit and accounts.	5 points.
Total		100 points

(A) Financial Turn Over (25 points)

The qualified bidders, short listed on the basis of adequate turnover prescribed in Para 8 above would be awarded points based on the maximum turn over during any one year. The information furnished in Form T-1 shall be evaluated as follows:-

- (a) The Internal Auditor firms which have audited organizations whose sum of audited annual financial turnover is 50 to 60% of the SRRDA turn over in the preceding financial year would be awarded 10 points out of 25 points.
- (b) The Internal Auditor firms which have audited organizations whose sum of audited annual financial turnover is 61 to 75% of the turnover of the SRRDA in the preceding financial year would be awarded 15 points out of 25 points.

(c) The Internal Auditor firms which have audited organizations whose sum of audited annual financial turnover is 76% to 100% of the turnover of the SRRDA would be awarded 20 points out of 25 points.

(d) The Internal Auditor firms which have audited organizations whose sum of audited annual financial turnover is more than 100% of the turn over of the SRRDA would be awarded 25 points out of 25 points.

(B) Qualifications and experience of key personnel on the rolls of Internal Auditor firm (30 Points)

For qualifications and experience of the key personnel, on the rolls of Internal Auditor firm, the firm should submit details of five senior personnel in the **Form No. T-2** and their curriculum vitae (CVs) in **Form No. T-2A**.

The Points for key personnel will be awarded as under:-

Points for Professional Qualifications

Sl. No.	Number of key personnel	Points to be awarded
1. i)	One or two FCAs on the rolls of Internal Auditor firm	4
ii)	Over two FCAs on the rolls of firm Internal Auditor	8
iii)	One to Three ACAs on the rolls of Internal Auditor firm	4
iv)	Above three ACAs on the rolls of Internal Auditor firm	7
v)	One to four DISAs on the rolls of Internal Auditor firm	4
vi)	Above four DISAs on the rolls of Internal Auditor firm	5
2.	Experience* of key personnel in audit of public works accounts*.	1 point to each key personnel (Maximum point 5).
3.	Experience* of key personnel in audit & accounts autonomous body/PSU of State Governments or Central Government.	1 Point to each key personnel (Maximum point 5).

**Details of professional qualifications will be extracted from the CVs of the professionals.*

(C) Capacity and Quality of the Audit Team (40 points)

The Internal Auditor will make his own assessment about adequate number of audit teams required for conducting the audit as per the TOR. Each audit team should comprise of one CA (FCA or ACA or DISA) and two support staff. Details of personnel in each team should be submitted in **Form No. T-3**. The details of teams for which information shall be provided will be as under:-

No. of PIUs under the SRRDAs	No. of teams to be evaluated (Teams as detailed in Form No. T-3)
25 or more	Top five
Between 10 to 24	Top three
Under 10	Top two

The evaluation of team shall be done on the basis of CVs. The number of teams to be deployed for internal audit may be decided by the bidders in consultation with SRRDA based on the number of PIUs, their locations, etc.

(D) Support Staff possessing experience of Public Works Audit and Accounts (5 points)

Based on the information furnished in Form T-3 one (1) point will be assigned to each support staff of the team who possesses audit of public works accounts experience subject to maximum of 5 points.

8.2 Cut off points for qualifying Technical Proposal

Based on the points and criteria as set out for Technical Proposals, all the bidders who have secured **60 or more points** shall be treated as successful bidders. Their Financial Proposals shall be opened.

Note: - In the States where the number of successful bidders after technical evaluation are less than three (3), the competent authority of the State can relax the aforesaid cut off criteria of technical bid to qualify top 3 bidders in the Technical Proposals.

8.3 The EC will record in detail the reasons for acceptance or rejection of the Technical Proposal analyzed and evaluated by it and would recommend the names of Internal Auditor Firm qualified in the Technical Bids to the Competent Authority of the SRRDA.

9. Opening of Financial Proposals

9.1 At the second stage, financial bids of only those bidders who have been declared

qualified in the Technical proposal will be opened by the EC. The “Financial Proposal” should be submitted in the Schedule – “Price Bid” in **Form No. F-1**. The Internal Auditor Firm should provide detailed break down of Costs Estimates of Services in the format given in **Form No F.-1A**

- 9.2 Each Financial Proposal will be inspected by the EC to confirm that it has remained sealed and unopened.
- 9.3 The SRRDA’s representatives or member (in EC) will open each Financial Proposal, and initial all the pages except printed document and also circle / initial changes, if any, noticed in the bid at the time of opening of bids. One of the representatives/ member (in EC) will read out aloud the name of the Internal Auditor Firm and the total prices quoted in the Schedule – “Price Bid” of each bidder. The SRRDA’s representatives (in EC) will record this information in writing.
- 9.4 The bidders representative shall be encouraged to be present at the time of opening of Financial Proposal. The bidder’s representatives, who choose to attend the bid proceeding will sign an Attendance Sheet.

10 Evaluation of Financial Proposals

- 10.1 The EC will subsequently review the detailed contents of each Financial Proposal. During the examination of Financial Proposals the EC or SRRDA’s staff and any other person involved in the evaluation process will not be permitted to seek clarification or additional information from any Internal Auditor Firm who has submitted a Financial Proposal.
- 10.2 The Financial Proposals will be checked for computational errors or material omissions and prices will be corrected and adjusted as necessary. In the case of material omissions, the cost of the relevant Financial Proposal will be increased by application of the highest unit cost and quantity of the omitted item as provided in the other submitted Financial Proposals.
- 10.3 A comparative statement shall be prepared by the EC to analyze and select the successful bidder and award of work. This will be approved by the Competent Authority of the SRRDA. The eligible Internal Auditor Firm who has quoted lowest rates would be awarded the work of internal audit after price negotiations if any, required.

11. Confidentiality

Information relating to evaluation of Proposals and recommendations concerning contract award shall not be disclosed to bidders who have submitted Proposals or to other persons not officially concerned with the selection process until the successful firm has been notified and contract awarded.

12. Award of Contract

- 12.1 After completion of negotiations¹, the SRRDA shall award the contract to the selected Internal Auditor Firm and promptly notify the other Internal Auditor Firm who had submitted Proposals that they were unsuccessful. The SRRDA will return the unopened Financial Proposals to the unsuccessful bidders who could not qualify for the opening of Financial Bid.
- 12.2 The validity of the proposal shall be for 90 days from the date of opening of the Technical Bid without change in the personnel proposed for the assignment and proposed price. The SRRDA will make its best efforts to select an Internal Auditor within this period.
- 12.3 Internal Auditor will be expected to take-up/commence with the assignment within a month of award of assignment order by the SRRDA and complete it by the stipulated time.
- 12.4 Under the overall guidance of the SRRDA, the Internal Auditor Firm will work

¹ *Negotiations are not an essential part of the selection process. As per CVC instructions there should be no post-tender negotiations with L-1. However, if it is felt necessary to conduct negotiations with the selected bidder, negotiation shall include discussions on the TOR, the methodology, staffing, Government inputs and special conditions of the contract. These discussions shall not substantially alter the original TOR or the terms of the contract, lest the quality of the final product, its cost, and relevance of the initial evaluation be affected. The final TOR and the agreed methodology shall be incorporated in "Description of Services", which shall form part of the contract.*

Financial negotiations shall only be carried out if due to aforesaid negotiations, there is any change in the scope of work which has any financial bearing on the final prices or of the costs/cost elements quoted are not found to be reasonable. In such negotiations, the selected firm may also be asked to justify and demonstrate that the prices proposed in the contract are not out of line with the rates being charged by the consultants for other similar assignments. However, in no case such financial negotiation should result into increase in the financial cost as originally quoted by the Internal Auditor Firm and on which basis the firm has been called for the negotiation.

directly with the respective PIUs. The Internal Auditor Firm is expected to conduct audit of SRRDA PIUs from _____ to _____ (SRRDA should write the period of assignment of internal audit). Performance of the Agency would be reviewed at the end of each year and contract may be terminated anytime after giving one month notice if performance of the Agency is found unsatisfactory.

- 12.5 It may be noted that any manufacturing or construction firm, with which the Internal Auditor might be associated with, will not be eligible to participate in bidding for any goods or works resulting from or associated the project of which this internal audit assignment forms a part.
- 12.6 Please note that if you consider that your firm does not have all the expertise for the assignment, there is no objection to your firm associating with another firm to enable a full range of expertise to be presented. However, joint ventures between firms on the shortlist are not permitted except with the prior approval of the SRRDA. The request for a joint venture should be accompanied with full details of the proposed association.
- 12.7 The remuneration which the Internal Auditor receives from the contract will be subject to normal tax liability as per the Tax Laws. Kindly contact the concerned tax authorities for further information in this regard, if required.
- 12.8 Kindly inform us by Post or Fax or e-mail:
- (a) Your acknowledgment of the receipt of this letter of invitation; and
 - (b) Whether or not you will be submitting a proposal.

Yours faithfully,

(Name & designation of the officer)

State Rural Roads Development Agency

Form No. T-1 (Refer to Para 8 of Appendix 1)

Financial turn-over of the firms audited by the Internal Auditor Firm during the last three year

Sl. No.	Name of the Organization audited (year-wise) during the last 3 years	Financial Turnover of the organization audited* (Rs. in lakhs)
1	2	3
1	2006-07	
	(i)	
	(ii)	
	(iii)	
	Total (2006-07)	
2	2007-08	
	(i)	
	(ii)	
	(iii)	
	Total (2007-08)	
3	2008-09	
	(i)	
	(ii)	
	(iii)	
	Total (2008-09)	

Signature of Authorized Representative of Internal Auditor Firm

Seal of the Internal Auditor Firm

* **Authentic supporting documents to be attached.**

Form No. T-2 (Refer to Para 8 of Appendix 1)

Details of qualifications and experience of key personnel

SI No.	Name of senior personnel	Qualification of key personnel			Experience	
		Educational	Professional			
			FCA	ACA	DISA	Audit of Public Works accounts experience (1 point to each key personnel)
Points to be awarded		8 (Maximum)	7 (Maximum)	5 (Maximum)	5 (Maximum)	5 (Maximum)

Signature of Authorized Representative of Internal Auditor Firm
Seal of the Internal Auditor Firm

From [Year]: to [Year]:

Employer:

Positions held:

Location:

Activities performed:

Note : Write tasks performed under various employer year-wise.

10. Detailed Tasks Assigned

[List all tasks to be performed under this Assignment/job]

11. Certification

I, the undersigned, certify that to the best of my knowledge and belief, this CV correctly describes myself, my qualifications, and my experience, I understand that any willful misstatement described herein may lead to my disqualification or dismissal, if engaged.

Date :

[Signature of key personnel]

Place:

Verified

Signature of Authorized Representative of
Internal Auditor Firm

Form No. T-3 (Refer to Para 3 of Appendix 1)

Details of No. of team to be deployed with details of personnel in each team

No. of team	Name of the team leader/support staff of the team	Position held in the Internal Auditor firm by the team leader		Audit experience in years	
		FCA or ACA or DISA	Support staff's designation	Audit of Public Works accounts experience	Autonomous bodies/PSU of State/Central Government
1	2	3	4	5	6
Team 1					
Team 2					
Team 3					
Team 4					
Team 5					
Team 6					

Team 7					

Signature of Authorized Representative of Internal Auditor Firm
Seal of the Internal Auditor Firm

Form No. F-1 (Refer to Para 9 of Appendix 1)

Price Bid

1	Name of work :	
2	Name of Internal Audit Firm :	
3	Audit fees per annum (Excluding Service Tax.) :	Rs.....(In Figures). (Rupees.....)(In words)

Signature

(Authorized representative of Internal Auditor Firm)

Seal of the Internal Auditor Firm

Note :-

1. Service Tax as applicable on the date of payment will be paid extra by the SRRDA.
2. The rates quoted are for one year which will be applicable for next year also, if the contract is extended to second year.
3. TDS or other statutory deductions as applicable in the State will be deducted by the SRRDA at the rates notified by Government of India from time to time from each bill.

Form No. F-1 A (Refer to Para 9 of Appendix 1)

Break up of Cost Estimate of Services

Sl. No.	Particulars	Amount (Rs.)
1.	Remuneration to staff	
2.	Out of pocket expenses	
3.	Contingency charges	
4.	Total cost estimates	

Signature

(Authorized representative of Internal Auditor Firm)

Seal of the Internal Auditor Firm

Note: The amount of total of cost estimate (F-1A) should agree with the total amount written in Price Bid (F-1). In case of discrepancies in the amounts, the amount quoted in Price bid form F-1 would prevail.

Term of Reference for Internal Audit of _____ (Name of State Rural Road Development Agency)

I. Introduction

Project Objective

Ministry of Rural Development, Government of India, has launched a programme known as Pradhan Mantri Gram Sadak Yojana (PMGSY) in December, 2000 to provide connectivity to all unconnected habitations in rural areas by way of all weather roads. In addition to new connectivity to the target habitations, up-gradation of existing through route is also envisaged under the programme for providing farms market connectivity. The Ministry of Rural Development and its associated technical arm, the National Rural Roads Development Agency (NRRDA) has been tasked with designing the programme strategy and overseeing actual implementation by States and District bodies. The NRRDA is an autonomous body of the Ministry of Rural Development registered under the Societies Registration Act, 1860.

The PMGSY is a 100% centrally sponsored scheme which is being implemented by the State Governments. Each State Government has nominated a department (Rural Development or Public Works Department or Panchayati Raj Department) as Nodal Department which is responsible for the implementation of the programme in the State. The Nodal Department has set up a State level autonomous agency; called the State Rural Road Development Agency (SRRDA) with a distinct legal status. These agencies are registered under Societies Registration Act, 1860. The SRRDA get the works executed through Programme Implementation Unit(s) [PIU] at the district or tehsil level. The PIU is headed by an officer of the rank of Executive Engineer. He has technical and clerical staff to support him on the pattern of public works system.

II. Funds Flow for the Project

The major source of funds for development of roads is the Central Road Fund accretion through cess on diesel oil. Besides this, World Bank and Asian Development Bank (ADB) also give funds to Union Government in the shape of soft loan which are provided to the SRRDAs in form of Grant-in-aid. Funds are also taken from NABARD in the shape of loan and the same are released by the Central Government (MoRD) through National Rural Roads Development Agency to the SRRDA in the form of Grant-

in-aid.

III. Accounting System

A common accounting system has been developed for the projects which are based on Central Public Works Accounting System and double entry accounting system (Mercantile Accounting). The accounting and financial management system of PMGSY has been codified in the following manuals developed by the NRRDA:-

- a) PMGSY Accounts Manual Programme Fund;*
- b) PMGSY Accounts Manual Administrative Expense Fund*; and
- c) User Manual for the Online Management Monitoring and Accounting System (OMMAS).*

** amended upto date*

The Ministry of Rural Development has also laid down guidelines for PMGSY programme which are codified in a book called PMGSY Programme Guidelines. All these publications are available on the NRRDA's website www.pmgysy.nic.in and OMMAS on website www.pmgysyonline.nic.in.

IV. Internal Audit

1. Internal audit aims at helping the management achieve the stated objectives. It involves analyzing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions.
2. The coverage of internal audit within an agency is broad and may involve topics such as the efficacy of operations, reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. Thus, the internal audit should ascertain the compliance with established policies, plans, procedures and reliability of management data developed within the agency and recommend operating improvements.
3. Internal Audit has been dealt with in Chapter 16 of PMGSY ACCOUNTS MANUAL PROGRAMME FUND and in the Chapter of 14 PMGSY ADMINISTRATIVE EXPENSES FUND ACCOUNTS MANUAL
4. The SRRDA (write full address) now wishes to commission an Internal Auditor Firm (name of the Internal Auditor Firm) to undertake the work of internal audit of SRRDA and its PIUs from to (write the period of assignment

of internal audit). Performance of the Internal Auditor Firm would be reviewed at the end of each year and the contract may be terminated after giving one month notice if performance of the Internal Auditor Firm is found unsatisfactory.

V. Objectives of Internal Audit

The objectives of the internal audit are to:

1. review the adequacy of the project financial management arrangements, including adherence to the PMGSY Operational and Accounting manuals; and
2. provide the project management with timely information on financial management aspects of the project to enable appropriate corrective / follow-up action;

VI. Scope of Internal Audit

The internal audit will be carried out for full financial year in accordance with the relevant national standards of auditing, and will include such tests and controls as the auditor considers necessary under the circumstances. When conducting internal audit, special attention should be paid to the following:-

1. Ensure that the accounting and financial management systems remain reliable and effective in design and to assess the extent to which they are being followed;
2. Review the efficacy, adequacy and application of accounting, financial and operating controls and thereby ensure the accuracy of the books of accounts;
3. Verify that the system of internal check is effective in design and operation in order to ensure the prevention of and early detection of defalcations, frauds, misappropriations and misapplications;
4. Identify areas of significant inefficiencies in the existing systems and suggest necessary remedial measures;
5. Confirm the existence of financial propriety in all decision and verify compliance to government and statutory requirements.
6. Confirm that the agreed procurement procedures and arrangements have been followed for works, goods and services.
7. Check that all expenditure incurred from Programme Fund Account and Administrative Expenses Fund Accounts has the necessary supporting documents and have been incurred in accordance with the PMGSY/Government of India rules and relevant financing agreement with Asian Development Bank (ADB) **(Appendix– I refers).**

8. Confirm that Bank Authorization given to PIUs for incurring expenditure under the project is used for purpose intended to. To establish this, the auditor should visit PIUs and conduct such audit/tests as may be deemed appropriate and necessary for the purpose of the audit.
9. That adequate records are maintained regarding the assets created such as Laboratory Equipments, IT equipments etc. and assets acquired by the project, including details of cost, identification and location of assets
10. That physical verification of assets is being carried out with due diligence.

The above are illustrative only and not exhaustive. The Internal Auditor may look into the areas which he/ she considers necessary based on the examination of the records /accounts of the PIUs / SRRDA.

VII. Extent and coverage of internal audit:

The extent and coverage of examination of accounts /records will be as follows:

1. The internal auditor shall exercise such checks of accounts and records as are necessary for providing assurance on the compliance with the Programme Guidelines, relevant provisions/ Rules and procedures in respect of awarded and on-going contracts. He will exercise 100% check in respect of the vouchers relating to the month having maximum number of transactions and all documents/registers/books etc. in respect of one completed contract including liquidated Damages. All contracts awarded since last audit will be examined by him. In respect of maintenance of roads, all records relating to one contract completed at least a year back will be examined by the auditor. Item-wise sizes of internal audit are given in **Schedule 2**. This is the minimum percentage of check required to be exercised by internal audit, however, the internal audit may increase the coverage of audit, if scrutiny of the accounts and records suggest so.
2. The auditor will vouch 50% of the cheques payment transactions and 100% of cash payment vouchers, bank statements and transfer entry vouchers in respect of the months selected.
3. A list showing the months / year for which vouching has been carried out shall be mentioned in the report.
4. Routine errors of omissions or commissions noted during the course of internal audit may be rectified on the spot.

5. The Internal Auditor Firm shall check the records of PIUs/SRRDA for the period..... However, records of earlier period can be checked, if required, wherever necessary.

6. The internal audit should pay special attention to see that:-

- (i) Bank Reconciliation Statement till the month prior to audit is duly been carried out by the PIUs/ SRRDA;
- (ii) The amount of Statutory / tax deductions at source have timely been remitted to the accounts of the concerned authorities;
- (iii) all the Bank Guarantees tendered by the contractor have been posted in Register of Bank Guarantees (Form PMGSY/SR/F-27);
- (iv) the Register has been reviewed each month by the Officer-in-charge of PIU for timely renewal and release;
- (v) the Bank Guarantees are effective throughout till the amount of advance has been fully recovered from the contractor against which the Bank Guarantee was tendered by him; and
- (vi) the monthly account of March should have a note showing the details of Bank Guarantees or Interest Bearing Securities held by the PIUs and their effectiveness

(Para 13.4 of PMGSY Accounts Manual Programme Fund refers).

7. The Internal Auditor shall comment on the effectiveness of the mechanism available in the PIUs/ SRRDA for ensuring compliance with observations of the earlier audit reports. He shall report on the corrective action taken on the observations of the earlier audit reports and also list out the serious observations made by statutory auditor/AG/C&AG which have not yet been complied with.

VIII. Check list of Records to be examined by Internal Auditors

A check list showing the records to be examined is enclosed for guidance of internal auditors (**Appendix -III**).

IX. Period of Internal Audit

The internal audit will be undertaken on half yearly basis viz April to September and October to March. The internal audit report for the period from April to September will be submitted to the management of SRRDA latest by 31st January (of the following year) and that of October to March latest by 31st July (for example: Internal Audit Report for

the period April, 2009 to September, 2009 will be submitted latest by 31st January, 2010 and that of October, 2009 to March 2010 latest by 31st July, 2010). The period to be covered under internal audit would be from-----to----- (Filled in by SRRDA). (The award letter of Internal Auditor (Internal Auditor Firm) shall contain details of date of commencement and completion of internal audit work in each stage, the date by which the reports are to be submitted and phase-wise fees payable. It shall specify the level of inspecting officer, minimum period he /she will visit each PIU in each phase and the minimum qualifications of the members of the audit team). The appointment of the C.A firm shall initially be for one year which may be extended for another year depending upon the performance of the auditor in the first year. The performance will be evaluated by the Audit Committee as prescribed in the PMGSY Accounts Manual. The decision of the Audit Committee will be ratified by the Executive Committee of the SRRDA.

X. Duration of Internal Audit

The duration of internal audit will be based on the work load of each PIU/SRRDA. The duration may be in the range of 3 to 5 days per PIU and 7 days for SRRDA for transactions in each half year. The above norms are tentative, however, the Internal Auditor Firm may make its own assessment for qualifying their rates on the time required for internal audit of each PIU (based on the number of PIUs and their locations) and the SRRDA. Duration of assignment of each PIU may be assessed taking due allowance for travel time to the locations.

XI. Internal Audit Reports

1. The internal audit report should be structured in a manner to provide the following: (a) audit observations; (b) implications of the observations; (c) suggested recommendations; (d) management's comments/agreed actions and (e) status of action taken on the previous recommendations. In addition, the internal auditor should prepare and submit a consolidated report on a six monthly basis, summarizing the individual unit wise reports and highlighting the critical issues which require the immediate attention of the SRRDA. The reports should be submitted to the management of the SRRDA within the time schedule mentioned in para IX *ibid*.

2. The auditor should discuss results of audit with the officer in-charge of PIU / SRRDA in each phase and all important observations will be brought to his notice for taking timely corrective and preventive action.
3. The report in respect of PIU shall be submitted in triplicate for each phase of audit to the Chief Executive Officer of the SRRDA, with two CDs of the report.
4. Internal auditor will send two copies to the Officer-in-charge of PIU.
5. As regards SRRDA, the internal audit report will be submitted to the head of the SRRDA.

XII. Action Taken Report

The Internal auditor will bring out in his report aspects relating to the compliance with audit observations made in the reports relating to earlier audits duly elaborating the corrective action taken by the concerned PIUs and SRRDA.

XIII. General

The auditor will be given access to all legal documents (agreements), correspondence, financial manuals, notices from the Project Management/State Implementing Units and any other information associated with the project as deemed necessary by the auditor.

The Internal Auditor Firm should familiarize themselves with the procedures laid down in the following publications:

- a) the tripartite agreement on Banking Arrangements, guidelines for banking arrangement codified in the PMGSY Programme Guidelines,
- b) accounting system of PMGSY codified in the PMGSY Accounts Manual Programme Fund and PMGSY Administrative Expenses Fund Accounts Manual,
- c) PMGSY Supplemental Operation Manual,
- d) PMGSY Online Management, Monitoring and Accounting System.
- e) Standard Bidding Document.

The Internal Auditor Firm entrusted with the job of internal audit should deploy some personnel who are conversant with Public Works Account System of Central PWD/State PWD at Divisional level.

Schedule 1 (Refer to Para VI of Appendix 2)

Reimbursement Claims of the ADB Funded Projects

1. Government of India has entered into Loan Agreement with Asian Development Bank (ADB). Under the agreement, ADB has approved loan for Rural Roads Project in five States viz. Madhya Pradesh, Chhattisgarh, West Bengal, Orissa and Assam. Expenditure incurred, from the Central Government Grant, is reimbursed by ADB. Monthly reimbursement claims in respect of the expenditure incurred are prepared by PIU/ SRRDA and sent to NRRDA. NRRDA checks these claims and forward to Ministry of Finance for claiming reimbursement from ADB.
2. ADB finances expenditure incurred in respect of Civil Works, Goods, Consultancy, etc. percentage of expenditure to be reimbursed by the ADB for each category is also indicated against the ceiling allocated in the category. Whether a claim is to be submitted as “Documented Claim” or “Non-documented Claim (SOE)” is based on the quantum of the eligible amount for reimbursement. In cases where eligible amount is less than US \$100,000, the claim is submitted as Non- documented (SOE). However, if the eligible amount exceeds US \$ 100,000, the claim is submitted as Documented Claim viz alongwith copies of Invoice/ Running Bill and Proof of Payment (Contractor’s Receipt). [Eligible amount means amount of cheques plus taxes deducted while making payment of bills].
3. As no documents are sent to ADB in support of Non documented claims, these are to be checked by Internal Audit with documents and accounts being kept in the PIU/SRRDA (Checklist for Internal Auditors at Appendix –3 refers).

Schedule 2 (Refer to Para VII of Appendix 2)

Item – wise sample sizes for internal audit

1. **Cash Book:** Besides the routine checks exercised in respect of Cash Book, 100% payment vouchers for the month having maximum number of transactions shall be examined.
2. **Ledger:** Entries with respect to one completed contract in every ledger
3. **Registers:** Test checking of all Registers for proper entries
4. **Measurement Book** One contract finalized during audit period. All prescribed checks to be conducted
5. **Mobilization and Machinery Advance:** Proper recovery and related bank guarantee and their upkeep.
6. **Final Bills:** Complete scrutiny of one final bill
7. **Liquidated Damages:** One completed contract full analysis
8. **Maintenance of Roads:** All roads of one contract completed at least one year back
9. **Contracts:** All contract awarded since last audit
10. **Bank Reconciliation:** Upto the month prior to month of audit

CHECKLIST FOR INTERNAL AUDIT

The checklist is illustrative only and not exhaustive. The Internal Auditor may look into the areas which he/she considers necessary based on his/her examination of the accounts/ records of the PIUs/SRRDA.

1. Grant-in-aid and Financial Issues

(a) Grant-in-aid

- 1.1 Inter Audit should see that :-
 - 1.1.1 Grant received has been utilized for the purpose for which it was sanctioned;
 - 1.1.2 Grant-in-aid earmarked for Administrative Expenses has been utilized for the purposes as detailed in paragraph 12 of PMGSY Programme Guidelines only;
 - 1.1.3 PMGSY funds have not been appropriated for meeting State Government expenditure;
 - 1.1.4 funds sanctioned for the Programme Fund Account have not been diverted for meeting Administrative Expenses and vice versa ;
 - 1.1.5 money lying under the head interest income has not been utilized for incurring PMGSY expenditure unless specifically authorized to do so by the MoRD;
 - 1.1.6 funds received for Programme Fund from MoRD/ NRRDA have been accounted for in the Programme Fund Account only;
 - 1.1.7 funds received for Administrative Expenses Fund from MoRD have been accounted for in the Administrative Expenses Fund Account only ;
 - 1.1.8 Utilization Certificate has been prepared in the format prescribed in the MoRD's letter No. P-17017/6/2007-RC dated 07.08.2007;

- 1.1.9 Utilization Certificate and Annual Audited Statement of Accounts of Programme Fund Account & Administrative Expenses Fund Account have been submitted to MoRD within six months of the close of the financial year;
- 1.1.10 unutilized funds shown in the Utilization Certificate and those of Balance Sheet (State) agree;
- 1.1.11 funds received from MoRD and RIDF funds released by NRRDA have been classified separately under the authorized heads of account as laid down in Charts of Accounts of PMGSY Accounts Manual Programme Fund Account;
- 1.1.12 unspent balance of Grant-in aid, if any, lying in the books of DRDA or other State Agency has been taken in the “Opening Balance Sheet” (para 2.1 of Chapter 2 of PMGSY Accounts Manual Programme Fund and Administrative Expenses Fund Accounts Manual refers) and action taken to realize the same from State Government; and
- 1.1.13 a provision has been made for maintenance of PMGSY roads, in the period of defect liability and routine maintenance by the State Government out of its resources.

(b) Financial Issues

1.2 Internal Audit should see that:-

- 1.2.1 as per para 8.5 of PMGSY Guidelines, cost of bridges upto 25 m. length for projects sanction prior to 17th December, 2008 are to be borne by the Government of India. For projects sanctioned on or after December 17th 2008, this limit is 50 m. for bridges and no limit in length of individual causeways. For bridges and causeways, the remaining cost, including agency charges, is to be borne by the respective State Governments on pro rata basis. State Governments are required to deposit the balance pro rata cost in the Programme Fund Account of the SRRDA. The audit is required to verify that the pro rata cost alongwith tender

premium, if any, has been made available in the Programme Fund by the State Government;

1.2.2 expenditure on land acquisition, shifting of poles, waterline and other such utilities has not been charged to PMGSY works;

1.2.3 the cost of preparation of DPR including investigation, survey and trace cutting (in case of hill areas), met from the PMGSY fund booked as 'Advance for Preparation of DPR' has been adjusted, soon after the DPR has been approved by the NRRDA/MoRD, and classified to the concerned head of work mentioned in the Charts of Accounts. Normally the expenditure on preparation of DPR is initially met from PMGSY fund. In case a DPR has not been approved by NRRDA/MoRD the entire amount has been realized from the State Government and credited to the PMGSY and shown in the Utilization Certificate as receipt;

1.2.4 State Government has to deposit requisite funds for all inadmissible costs due to time over-run, cost over-run, arbitration/judicial awards, etc. in the Programme Fund Account of the SRRDA;

1.2.5 expenditure on the following items has not been met from PMGSY funds:-

- a) purchase of vehicle;
- b) payment of pay and allowance of the staff;
- c) wages to Work Charged Staff;
- d) purchase or construction of office or site office building, etc. purchase of furniture and furnishing of the office;
- e) purchase /renovation of office area;
- f) equipments and machinery such as fax machine, photocopier over head projector etc.;

- g) administrative expenses of State Government [codified against Charts of Account (head of account)] 55.11 to 55.24 of PMGSY Administrative Expenses Fund Accounts Manual;
 - h) expenditure on plantation of trees on both sides of PMGSY roads ; and
- 1.2.6 the SRRDA has obtained exemption for payment of Income Tax under Section 12 A of the Income Tax Act, 1961 from the Income Tax Department.

2. Bank Account and Bank Reconciliation

2.1 The Internal Audit should see that:-

2.1.1 Bank accounts have not been opened in favour of PIUs.

2.1.2 A list of Authorized signatories' alongwith the attested signatures of Empowered Officer has been maintained in the SRRDA. The list has been verified quarterly and updated list sent to Bank in each quarter. In case of any change in the name of authorized signatory the Bank has been informed not to honor the cheque (s) issued by him/ her after the date of his/ her relief.

2.1.3 Bank has not levied Bank charges for the services rendered to SRRDA.

2.1.4 Bank has automatically and timely invested surplus funds in the account of SRRDA as agreed to in the MoU on banking arrangement.

2.1.5 Bank has credited amount of interest on deposits in accordance with the rate of interest formula stipulated in the MoU.

2.1.6 The bank provides a Monthly Statement of Receipts and Payments of PMGSY transactions to all the PIUs and SRRDA every month.

2.1.7 That bank reconciliation has been carried out by the Officer-in-charge of Cash Book in respect of Programme Fund Account and Administrative Expenses Fund Account every month.

- 2.1.8 The details shown in the monthly bank statement tallies with the entries made in the Cash Book of PIUs. Discrepancy, if any, between the two records has been settled promptly.
- 2.1.9 The SRRDA should verify the figures (Cheques/ Remittances) shown in the consolidated bank statement (PIUs wise) and those detailed in the monthly account of each PIU. Discrepancy, if any, between the two records has been settled promptly.
- 2.1.10 Banker certificate showing the balance in the Saving Account, investments and interest allowed on the deposits in respect of Programme Fund Account and Administrative Expenses Fund has been obtained by the SRRDA from accredited bank at the close of financial year.
- 2.1.11 Interest allowed by the bank on the investment and deposits etc. has been correctly worked out and accounted for in the Cash Books of SRRDA promptly.
- 2.1.12 Schedules of Bank Authorization Utilization and Reconciliation in form PMGSY/SCH/F-52 (cheques) and Bank Remittances Reconciliation Statement in form PMGSY/SCH/F-52(REM) have been prepared by the PIUs and enclosed with the Monthly Account. Entries of total amount of cheques issued and remittances made by each PIU have been made in the Cash Book of the SRRDA every month on the basis of the aforesaid schedules.
- 2.1.13 Cheque, if any, remaining unpaid for over six months after the month of its issue and not surrendered for issue of fresh cheque should be cancelled and reversal entry made in the Cash Book of SRRDA. The SRRDA should advise the concerned PIU to make similar reversal entry in its Cash Book as well in the accounts.
- 2.1.14 The internal audit should exercise 100% check of bank adjustments.

3. Cash Book

3.1 The following points should be borne in mind while conducting audit of Cash Book:-

3.1.1 that Cash Book has been maintained in form PMGSY/1A/F-3 by SRRDA and in form PMGSY/1A/ F-3A by PIUs. All the entries made in the Cash Book are in ink and authenticated by the Officer in-charge of Cash Book ;

3.1.2 that all the monetary transactions have been entered in the Cash Book as soon as they have occurred and all entries made there in have been attested by the Officer in-charge of Cash Book;

3.1.3 that the Cash Book is closed and checked regularly and that at the end of each month the Officer in-charge of Cash Book has personally verified the cash balance or bank authorization or bank balance and recorded a signed and dated certificate to this effecting in the Cash Book;

3.1.4 that the totals have been checked by a person other than the writer of the Cash Book;

3.1.5 that the Divisional Accountant/Financial Controller has affixed his dated initial after the last entry of the day's transactions, in Cash Book, in token of check in the manual system of account;

3.1.6 that for every entry there is a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in accounts. The column LF of cash book should indicate the page number of the Ledger where the transaction has been posted and in the ledger page number of Cash Book has been written;

3.1.7 that amounts received by PIUs have been paid in full into the bank without undue delay for credit to SRRDA's Account;

3.1.8 to verify that the entries made in the Cash Book tally with the voucher or receipt;

- 3.1.9 that opening and closing shown at column Cash, Bank Authorization or Bank in Cash Book tallies with monthly account;
- 3.1.10 that bank closing balance (Cash or in Bank or Bank Authorization) shown in the Bank Reconciliation Statement tallies with those of Balance Sheet;
- 3.1.11 that when money is received, a receipt in form PMGSY/1A/F-5 has been issued to the payee. The receipt should be signed by the DO/EO himself who should satisfy himself at the time of signing the receipt that the amount has been entered in the Cash Book;
- 3.1.12 erasure or overwriting of an entry once made is prohibited. The mistake should be corrected by drawing a line through the incorrect entry and recording the correct entry in red ink;
- 3.1.13 that cash and valuables have been kept in strong cash box secured by double lock.
- 3.1.14 the officer-in-charge of Internal Audit party may get the cash balance in cash box verified by the DO/EO in their presence and a certificate of verification recorded in the Cash Book;
- 3.1.15 that in case of transfer of charge, the cash, Cash Books has been handed over by the relived officer to the relieving officer and note to this effect recorded in the Cash Book;
- 3.1.16 that surprise physical verification of cash has been conducted at a periodical intervals by the officer-in-charge of Cash Book; and
- 3.1.17 where the Cash Book has been kept on computer, a monthly print out should be kept in a separate file and authenticated by the Divisional Officer/ Empowered Officer.

4. Ledgers

- 4.1 The Internal Audit should see that:-

- 4.1.1 The General Ledger (Debit Balances) has been maintained in form PMGSY/IA/F- 8 and General Ledger (Credit Balances) in form PMGSY/IA/F- 9 in respect Programme Fund Accounts and Administrative Expenses Fund Accounts by all PIUs and SRRDA separately.
- 4.1.2 Contractors' Ledger has been maintained in form PMGSY/1A/F-18 by all PIUs.
- 4.1.3 The pages of ledger are machined numbered and certificate of count of pages has been recorded on the first page before a ledger is brought into use.
- 4.1.4 All monetary transactions have been ledgerised as soon as they occurred and attested by Divisional Accountant or Financial Controller as the case may be.
- 4.1.5 All columns of ledgers have been completely filled in.
- 4.1.6 The progressive totals have been struck every month.
- 4.1.7 The monthly and progressive figures posted under each head of account tally with those of Monthly Account.
- 4.1.8 At the close of the each financial year all incidental receipts in Major Head 21 of Programme Fund Accounts have been adjusted by credit to head 1.06. All revenue expenditure booked under Major Head 54 and revenue receipts booked under Major Head 60 in Administrative Expenses Fund Accounts have been adjusted in accordance with the procedure laid down in para 12.5.2 Of PMGSY Administrative Expenses Fund Accounts Manual.
- 4.1.9 Where the ledgers have been kept on computer, a monthly print out should be kept in a separate file and authenticated by the Divisional Officer/ Empowered Officer.

5. Registers

5.1 The internal audit party should see that:-

(a) Stock Register of Cheque Book

- 5.1.1 Stock Register of Cheque Book in form (PMGSY/SR/F-32) has been maintained for Programme Fund Accounts and Administrative Expenses Fund Accounts by PIUs separately.
- 5.1.2 All the cheque books on receipt have been carefully examined by the Divisional Officer and a certificate of count of number of forms/leaves contained in each book has been recorded.
- 5.1.3 Cheque books have been kept in safe custody of Divisional Officer under lock and key.
- 5.1.4 The register of daily account of cheque forms used during the day is maintained and all columns have been completely filled in and attested by the Divisional Officer.
- 5.1.5 The cheque books of Programme Fund Account have not been used for payment of Administrative Expenses Fund and vice versa.
- 5.1.6 The time barred cheques are cancelled and procedure as envisaged in para 7.11.10 of PMGSY Accounts Manual has been followed.
- 5.1.7 In case of loss of any cheque, the bank has been informed in time so as to avoid any over payment.

(b) Register of Durable Assets

- 5.2.1 Register of Durable Assets in form PMGSY/SS/F-46 has been maintained by PIUs in respect of computers and peripherals and laboratory equipment purchased from PMGSY funds.
- 5.2.2 The assets should be physically verified at the end of each financial year by an officer other than the in-charge of the stores. Discrepancies, if any, have been promptly investigated and brought to account.
- 5.2.3 A list of surplus or obsolete or unserviceable assets i.e. laboratory equipments, computer and peripherals etc. purchased from the Central Government Funds is

sent on half yearly basis. However, write off of assets would be accorded by the Competent Authority of the State Government.

(c) Bill Register

5.3.1 Bill Register has been maintained in form PMGSY/SR/F-33.

5.3.2 The bills of contractor/suppliers have been entered in the register strictly in order of receipt i.e. the bill received first has been entered before the bills received afterwards.

5.3.3 The register has been reviewed by the Divisional Officer at regular intervals.

5.3.4 Remarks of serious nature should be brought out in the audit report.

(d) Register of Works

5.4.1 That Register of Works in form PMGSY/1A/F-19 has been maintained by the PIU.

5.4.2 The Register has been posted monthly.

5.4.3 The approved (sanctioned) amount of the estimate has been entered in respect of each work and each road.

5.4.4 If revised estimates are approved (sanctioned), the same have been entered below the corresponding amount of the original estimates.

5.4.5 Bank authorization sanctioned for each package has been noted in the register. Any addition or cancellation made towards bank authorization during the year has been noted below the original entry made in the register.

5.4.6 The progressive value of work done against each package agrees with the Schedule of Assets A-1or A-2 or A-3 attached with the Balance Sheet.

5.4.7 The Register should be signed by the Divisional Officer and Divisional Accountant every month.

(e) Register of Interest Bearing Securities and Bank Guarantees (BG)

- 5.5.1 The Register of Interest Bearing Securities and Bank Guarantees have been maintained in form PMGSY/SR/F-27.
- 5.5.2 Original documents have been kept in the safe custody of the Divisional Officer.
- 5.5.3 In case of transfer of charge the documents have been handed over by Relived Officer to the Relieving Officer and this fact has been recorded in the handing over and taking over charge report.
- 5.5.4 The register has been reviewed each month. The Bank Guarantees /Interest bearing securities have been timely renewed or encashed (in case of default on the part of contractor).
- 5.5.5 At the end of the financial year, a list showing the details of Interest Bearing Securities and bank Guarantees held by PIUs have been enclosed with the Balance Sheet of March.
- 5.5.6 The BG has been sent to the Divisional Officer directly by the issuing bank under register post (AD). In case the BG has been submitted by contractor personally, the issuing bank should be requested to send by registered post (AD) and unstamped duplicate copy of BG directly to the Divisional Officer with a covering letter to compare with the original BG and confirm that it is in order.
- 5.5.7 The Interest Bearing Security /Bank Guarantee should be effective till the purpose for which it was given has been submitted has been accomplished.
- 5.5.8 Where the contractor has submitted the Performance Security in the form of BG, the period of validity of BG should be at least one year initially, however, the contractor should get this BG extended in such a way that an amount equal to 5% of the contract price is always available with division until 45 days after the lapse of defect liability period.
- 5.5.9 The BG or Interest Bearing Securities (IBS) should be mapped in such a way that the process of renewal of BG or IBS is started timely by two months in

advance of date of their expiry. In case the contractor has failed to renew the BG, the Divisional Officer has recovered the equivalent amount from any dues payable to the contractor or encashed the BG/ IBS.

6. Mobilization Advance and Machinery Advance

- 6.1 Where a contract provides for grant of Mobilization Advance and Advance against Machinery, the internal audit should see that:-
- 6.1.1 Mobilization Advance, if any, paid to the contractor does not exceed 5% of the contract price excluding the contract price for routine maintenances work.
- 6.1.2 Equipment Advance does not exceed 90% of the cost of new equipment brought to the site, subject to a maximum of 10% of the contract price excluding the contract price for routine maintenance.
- 6.1.3 Invoices and other documents related to advance have been verified by the Engineer-in-charge and a copy of the same has been retained.
- 6.1.4 An unconditional Bank Guarantee given by the Scheduled Bank in India has been furnished by the Contractor in the form acceptable to the project authorities before the release of advance.
- 6.1.5 Whether guidelines regarding acceptance of Bank Guarantee issued by the Central Vigilance Commission (CVC) vide OM No. 02-07-01-CTE-30 dated 31 December, 2007 [Copy hoisted on the web site www.pmsgsy.nic.in (circular No. P-17011/3/3005/PIII/SBD dated 26.02.2008)] have been observed by the Officer-in-charge of the PIU.
- 6.1.6 The Bank Guarantee equivalent to the amount outstanding has remained effective/ valid in full from the date of advance still the entire amount of advance has been recovered from contractor.
- 6.1.7 The advance has been recovered in proportion to the amount of work done since previous bill and work has proceeded as per the work plan.

6.1.8 Account of Advance for Machinery of Advance and Mobilization Advance has been kept in form PMGSY/1A/F-13.

6.1.9 Advance recovered has been recorded in the MB.

7. Insurance Cover

7.1 Audit should see that:-

7.1.1 The contractor at his cost has provided in the joint names of the Employer and the Contractor, insurance cover from the start date to the date of completion which covers the following risks mentioned in clause 13 of Part I General Condition of Contract.

7.1.2 The Insurance Policies and certificate have been obtained by the Engineer-in-charge of work before the date of start of work from the contractor.

7.1.3 The insurance cover has been submitted by the contractor to the Engineer-in-charge to cover the risk from date of completion of work to the end of defect liability period.

7.1.4 If the contractor has failed to secure the insurance cover, action has been taken against him in terms of Clause 52.2 (f) of Part I of General Conditions of Contract.

8. Security Deposit and Performance Security Deposit

(a) Security Deposit

8.1 Audit should see that:-

8.1.1 The Security Deposit has been deducted from each running bills of the contractor at the rate stipulated in the agreement of the value of work done since previous bill.

8.1.2 The Earnest Money which accompanied the tender has been adjusted against the Security Deposit.

8.1.3 A Register of Deposits Repayable in form PMGSY/SR/F-22 has been maintained and posted regularly.

8.1.4 On satisfactory completion of the whole construction work the security deposit is refunded as stipulated in the agreement.

(b) Performance Security Deposit

8.2 Audit should see that:-

8.2.1 Performance Security Deposit has been recovered from the contractor as stipulated in the agreement.

8.2.2 In case the contractor has submitted a Bank Guarantee in lieu of Performance Security Deposit, the validity of the same should be at least one year initially and has to be extended in such a way that the Performance Security Deposit is always available with the Engineer-in-charge as stipulated in the agreement till the routine maintenance period is over.

8.2.3 The amount of Performance Security has been increased adequately in accordance with Clause 27.3 of Section 2 of the Standard Bidding Document.

8.2.4 Performance Security received in the form of Bank Guarantee has been noted in the Register of Interest Bearing Securities/Bank Guarantee (form PMGSY/SR/F-27).

8.2.5 Performance security deposit has been repaid to the contractor when the period of five years fixed for routine maintenance is successfully over and that the Engineer-in-charge of work has certified that the contractor has satisfactorily carried out the routine maintenance of work.

9. Measurement Book (MB)

9.1 The Measurement Book is the basis of all accounts of quantities whether of works done by contractor or departmentally or material received. The following points should be seen in audit:-

9.1.1 The Measurement Book has been maintained in form PMGSY/1A/F-15.

- 9.1.2 All MBs have been numbered serially.
- 9.1.3 A register of Measurement Books in form PMGSY/SR/F-31 showing the serial number of each book, date of receipt in the PIU, Sub division to which it is issued. The date of issue, date of return of completed MB to PIU by Sub division and date of record of MB has been completed.
- 9.1.4 MBs have been reviewed by Divisional Accountant as directed by the Engineer-in-charge of the PIU.
- 9.1.5 Test check of measurements as prescribed by the PWD/Department, by the respective officers has been carried out prior to passing of the running/final bills of the contractor(s). Also measurement recorded in the MB which cannot be subsequently checked or measured or which have very high unit rates or which in the opinion of the Engineer-in-charge of work are important have been checked as per the prevailing guidelines.
- 9.1.6 Entries in MBs have been recorded continuously and no blank page left or page torn out. Any page left blank inadvertently has been cancelled by diagonal lines and cancellation has been attested and dated by the responsible officer.
- 9.1.7 The entries have been made in ink only. Pencil entries are not inked over.
- 9.1.8 No entry is erased. Mistake, if any, has been corrected by crossing out the incorrect words or figures and inserting the corrections. The correctness thus made have been initialed and dated by the responsible officer.
- 9.1.9 Any measurement cancelled, the same has been supported by dated initials of the officer ordering the cancellation or by a reference to his order initialed by the officer who made the measurements. The reasons for cancellation have been duly recorded.
- 9.1.10 Arithmetical calculation of measurements and total have been correctly worked out and abstracted. At least one final bill may be checked with respect to MB.

10. Payment to Contractors

(a) Bill of Quantities

10.1 The internal audit should see that:-

10.1.1 the contractor has been paid for the quantity of work done at the rate given in the
Bill of

Quantities for each item of work;

10.1.2 the variations, if any, within the scope of work, have been resorted to under the
written orders of the Engineer-in-Charge of work;

10.1.3 the variation has been approved by the competent authority in the Department in
accordance with the Departmental procedure in vogue;

10.1.4 the rates of variation items have been worked out in accordance with the
procedure laid down in clause 36.1 and 36.2 of General Conditions of Contract;
and

10.1.5 the rates of variation items which could not be determined in the manner
specified in clause 36.1 or 36.2 of General Conditions of Contract have been
determined in accordance with the provisions stipulated in clause 36.3 of the
agreement .

(b) Payment to Contractors

10.2.1 The bill has been prepared in the form PMGSY/1A/F-11.

10.2.2 Payment of Machinery Advance and Mobilization Advance has been made on
form PMGSY/1A/F-6.

10.2.3 Refund of Lapsed Deposit, if any, has been made in form PMGSY/SS/F-51 and
with the approval of the Competent Authority.

10.2.4 The bill of quantities shown in the contractor bill tallies with those in the MB.

- 10.2.5 The rate paid in the bill of quantities and nomenclature of item of work done agrees with the agreement.
- 10.2.6 Where part rate has been allowed, the same has been approved by the competent authority.
- 10.2.7 Mobilization Advance and Machinery Advance have been recovered in proportionate to value of work done since previous bill.
- 10.2.8 Statutory deductions have been made at the rate notified by the respective Tax Authorities for the year in which payment is actually made to the contractor(s).
- 10.2.9 Security Deposit and Performance Security Deposit have been recovered at the percentage mentioned in the agreement.
- 10.2.10 Certificate that work has been done as per specifications forming part of agreement has been recorded in the bill.
- 10.2.11 Material issued to the contractor has been recovered promptly.

(c) Defect Liability Certificate

- 10.3 Audit should see that before a final bill of the contractor is passed, whether the Engineer- in-Charge has issued a defect liability certificate and certified the final payment that is due to the contractor within 42 days of the receipt of final account of the work done by the contractor.

(d) Liquidated Damages

- 10.4 Time is deemed to be an essence of the contract on the part of the contractor. It is, therefore, necessary for a contractor to achieve the milestones prescribed in the contract. The audit should examine the following:-
 - 10.4.1 That milestone prescribed in para 21 of Contract Data subject to valid hindrances certified by the Engineer-in-charge to General Conditions of Contract (SBD) detailed below have been achieved:-

Value of entire contract	Period allowed
1/8	1/4
3/8	1/2
3/4	3/4

10.4.2 If the contractor has failed to achieve the above milestones whether the Engineer-in-charge of work has levied the liquidated damages at the rate of 1% of initial contract price, rounded off to the nearest thousand per week subject to a maximum of 10% of the initial contract price rounded off to the nearest thousand.

10.4.3 That amount of liquidated damages has been deducted from the payments due to the contractor.

10.4.4 If the contractor has achieved the next milestone, the amount of liquidated damages already withheld has been returned to the contractor by adjustment in the next payment certificate.

10.4.5 If the intended date of completion is extended after liquidated damages have been paid, whether the Engineer-in-charge has corrected the recovery of liquidated damages

(e) Final account of work done by contractor

10.5 Audit should see that:-

10.5.1 When the work is completed, a Completion Certificate has been recorded by competent authority of the project.

10.5.2 That contractor has submitted the final account of work done to the Engineer-in-Charge of the whole work.

10.5.3 The final bill has been paid to the contractor within 63 days as stipulated in clause 50 of Section 4-Part 1 General Conditions of Contract. If the contractor bill has not been finalized as mentioned above, reasons for withholding the bill should be furnished.

10.5.4 Other points to be seen:-

- (i) That all advances, outstanding against the contractor have been recovered in full.
- (ii) That extension of time for delay in completion of work has been decided by the competent authority.
- (iii) That Security Deposit and Performance Security have been recovered in full as stipulated in the agreement
- (iv) Whether variations in the items of work beyond the permissible limit and rates therefore have been approved by the Competent Authority of the project.
- (v) That recovery towards cost of material issued to contractor and other recoveries have been made.
- (vi) That TDS has been recovered in full.
- (vii) That a certificate completion of work recorded,
- (viii) That recoveries pointed out by audit or NQM, etc. have been made from the bill of the contractor.
- (ix) That certificate has been recorded in the Site Order Book that all defects in work pointed out to contractor have been rectified.
- (x) That the site has been cleared by the contractor.
- (xi) The contractor has accepted the measurements and payment of final bill in full and final settlement.

11. Accounts

11.1 Internal audit should see that:-

- 11.1.1 the Monthly Accounts, Balance Sheet in respect of Programme Fund Account and Receipts & Payments Account, Income and Expenditure Account and Balance Sheet in respect of Administrative Expenses Fund are being submitted

by the PIU to the SRRDA by the prescribed date (5th of the month following that to which it relates);

- 11.1.2 the above mentioned accounts are duly supported by the monthly Bank Reconciliation Statement;
- 11.1.3 the Balance Sheet of March in respect of Programme Fund Account accompany the lists of Bank Guarantees and Interest Bearing Securities alongwith the certificate of Divisional Officer certifying that all the Bank Guarantees and Interest Bearing Securities held by him are effective;
- 11.1.4 the SRRDA has consolidated the accounts received from the PIUs in respect of each of the Programme Fund Account and Administrative Expenses Fund Account every month;
- 11.1.5 the Balance Sheets (State) of Programme Fund Account and Administrative Expenses Fund Account have been audited by the Statutory Auditor and the same have been sent to MoRD/NRRDA on or before 30th September of the year following that to which it relates;
- 11.1.6 action taken report on the points raised by the Statutory Auditor has been prepared by SRRDA and submitted to the MoRD/NRRDA alongwith the State Balance Sheet; and
- 11.1.7 PIUs are making entries into OMMAS concurrently. The accounts generated by the system are duly authenticated by the Divisional Officer and Divisional Accountant and those of SRRDA by the Empowered Officer and Financial Controller.

12. Internal Audit of Asian Development Bank (ADB) Reimbursement Claims

- 12.1 ADB funded projects are being implemented in five States viz Chattisgarh, Madhya Pradesh, Assam, Orissa and West Bengal. Internal Audit should see that:-

- 12.1.1 In respect of Loan no. 2018 of Rural Roads Sector I Project, ADB's financing is limited to 76% of contract amount and in respect of Loan no. 2248-IND, 2414-IND, 2445-IND and subsequent loans under Rural Roads Sector II Investment Program, ADB's financing would be limited to 80% of the contract amount. These percentages would be applied to every running / final bill of the contract as well as bills for advances.
- 12.1.2 The reimbursement claims is in respect of the net cheque amount paid to the contractor / supplier / consultant plus tax deducted from his bill at the time of payment. The advances made to the contractor or supplier towards machinery or mobilization would also be reimbursed similar to works payment mentioned above.
- 12.1.3 The amount of SOE claims tallies with the amount of original vouchers / invoices / running bills etc.
- 12.1.4 Income Tax, VAT, Royalty etc deducted from the bills are deposited to the respective Govt. account of concerned department for which reimbursement has been claimed in due time period.
- 12.1.5 The amount of claims (SOE / Documented) submitted by PIUs / SRRDA tallies with the figures shown in the Balance Sheet of State and was duly certified by the Empowered Officer.
- 12.1.6 No reimbursement of non ADB funded projects is claimed by way of SOE or Documented Claims (DOC).
- 12.1.7 Refund of Security Deposit against Interest Bearing Securities is also admissible for reimbursement from ADB.
- 12.1.8 Reconciliation of the amount for which claims has been sent has been carried out with monthly and annual accounts.

13. Provision for Maintenance of Roads

13.1 Internal audit should see that:-

13.1.1 adequate provision for contractual liabilities has been assessed road-wise & PIU-wise and consolidated at SRRDA level for seeking budget for the same from the State Government;

13.1.2 funds made available by the State Government for maintenance have been provided to the PIUs in proportion to the annual assessed requirement during

each quarter;

13.1.3 at the PIU level, record of monthly joint inspection with the contractors of maintenance activities has been kept and payment released to the contractor on six monthly basis as per the provisions contained in clause 38.2 (Section 4, General Conditions of Contract of Standard Bidding Document for PMGSY) made based on such monthly reports;

13.1.4 notices issued to the contractor in case maintenance activities are not carried out and follow up action which may be reduction in the payments due to the contractor and or forfeiture of the Performance Guarantee have been taken or not; and

13.1.5 in case the contractor despite notices has failed to start the maintenance of road whether another agency has been fixed to carry out the maintenance work or not.

14. Compliance with the Earlier Audit Report(s)

14.1 Internal audit should:-

14.1.1 comment on the effectiveness of the mechanism available in the Audittee (PIUs/ SRRDA) for ensuring compliance with observations of the audit report;

14.1.2 comment on the progress made by the PIUs/ SRRDA to settle the outstanding audit observations of statutory audit/AG/C&AG audit; and

14.1.3 list out the serious observations made by statutory auditor/AG/C&AG Audit which have not been complied with and incorporate the same in its report for information of the Audit Committee formed by the SRRDA.

Sample Form of Contract Agreement for Internal Audit

Subject: **Agreement between SRRDAand (Name of Internal Auditor Firm) in respect of Internal Audit of PMGSY Accounts of PIUs and SRRDA.**

1. This CONTRACT is made the [day] of the [month] , [year], between the ----- (Name of SRRDA and office address)[hereinafter called the “Employer”], of the first part and, [name of the Internal Auditor Firm] (hereinafter called the “Internal Auditor Firm”).

WHEREAS

- a) The Internal Auditor Firm having represented to the “Employer” that he has the required professional skills, personnel and technical resources, has offered to provide in response to the Tender Notice dated _____ issued by the Employer ;
 - b) The “Employer” has accepted the offer of the Internal Auditor Firm to provide the services on the terms and conditions set forth in this Contract.
2. Set out below are the terms and conditions under which Internal Auditor Firm has agreed to carry out for SRRDA the above-mentioned assignment specified in the attached Terms of Reference (TOR).
 3. For administrative purposes, Empowered Officer of State Rural Roads Development Agency (SRRDA) has been assigned to administer the assignment and to provide of Internal Auditor Firm with all relevant information needed to carry out the assignment. The services will be required for about ____ years commencing from _____ to _____. Performance of the agency would be reviewed at the end of each year based on definite measurable indicators and the contract may be terminated after giving one month notice if performance of the agency is found unsatisfactory.
 4. The Employer may find it necessary to postpone or cancel the assignment and/or shorten or extend its duration. In such case, every effort will be made to give you, as early as possible, notice of any changes. In the event of termination, the

Internal Auditor Firm shall be paid for the services rendered for carrying out the assignment to the date of termination, and the Internal Auditor Firm will provide the SRRDA with any reports or parts thereof, or any other information and documentation gathered under this Agreement prior to the date of termination.

5. The services to be performed, the estimated time to be spent, and the reports to be submitted will be in accordance with the attached Description of Services.
6. This Agreement, its meaning and interpretation and the relation between the parties shall be governed by the laws of State Government.
7. This Agreement will become effective upon confirmation of this letter by Internal Auditor Firm and will terminate on _____, or such other date as mutually agreed between the SRRDA and the Internal Auditor Firm.
8. Payments for the services for every year will not exceed the total amount of Rs. _____.

The SRRDA will pay audit fees in following percentage of the agreed amount, within 30 days of receipt of pre receipted bills duly verified by the designated officer of the SRDDA in duplicate for respective stages as follows:

PAYMENT SCHEDULE (EACH YEAR)		
Stage	Rate percentage of agreed amount	Event
1st	10 %	After unequivocal acceptance of letter of award and submission and approval of inception report by the SRRDA.
2nd	40%	Upon receipt and acceptance of 1 st half year Internal Audit Report of 1 st year
3rd	50%	Upon receipt and acceptance of 2 nd half year Internal Audit Report of 1 st year
4th	50%	Upon receipt and acceptance of 1 st half year Internal Audit Report of 2 nd year
5th	50%	Upon receipt and acceptance of 2 nd half year Internal Audit Report of 2 nd year

In case the number of PIUs is increased or decreased, the amount of audit fees shall be determined pro rata.

9. The Internal Auditor Firm will be responsible for appropriate insurance coverage. In this regard, the Internal Auditor Firm shall maintain workers compensation, employment liability insurance for their staff on the assignment. The Internal Auditor Firm shall also maintain comprehensive general liability insurance, including contractual liability coverage adequate to cover the indemnity of obligation against all damages, costs, and charges and expenses for injury to any person or damage to any property arising out of, or in connection with, the services which result from the fault of the Internal Auditor Firm or its staff. The Internal Auditor Firm shall provide the SRRDA with certification thereof upon request.
10. The Internal Auditor Firm shall indemnify and hold harmless the Employer against any and all claims, demands, and/or judgments of any nature brought against the Employer arising out of the services by the Internal Auditor Firm under this Agreement. The obligation under this paragraph shall survive the termination of this Agreement.
11. The Internal Auditor Firm agrees that, during the term of this Contract and after its termination, the Internal Auditor Firm and any entity affiliated with the Internal Auditor Firm, shall be disqualified from providing goods, works or services (other than the Services and any continuation thereof) for any project resulting from or closely related to the Services.
12. All final plans, reports and other documents or software submitted by the Internal Auditor Firm in the performance of the Services shall become and remain the property of SRRDA. The Internal Auditor Firm may retain a copy of such documents but shall not use them for purposes unrelated to this Contract without the prior written approval of the SRRDA.
13. The Internal Auditor Firm undertake to carry out the assignment in accordance with the highest standard of professional and ethical competence and integrity, having due regard to the nature and purpose of the assignment, and to ensure that the staff assigned to perform the services under this Agreement, will conduct themselves in a manner consistent herewith.

14. The Internal Auditor Firm will not assign this Contract or sub-contract or any portion of it without the SRRDA prior written consent.
15. The Internal Auditor Firm shall pay the taxes, duties fee, levies and other impositions levied under the applicable law and the SRRDA shall perform such duties, in regard to the deduction of such tax, as may be lawfully imposed.
16. The Internal Auditor Firm also agree that all knowledge and information not within the public domain which may be acquired during the carrying out of this Agreement, shall be, for all time and for all purpose, regarded as strictly confidential and held in confidence, and shall not be directly or indirectly disclosed to any person whatsoever, except with the SRRDA written permission.

17. Settlement of disputes:

- (i) The parties use their best efforts to settle amicably all disputes arising out of or in connection with this agreement or the interpretation thereof.
- (ii) Any dispute between the parties as to matters arising pursuant to this agreement, which cannot be settled amicably within thirty (30) days after receipt, by one party of the other party's request for such amicable settlement may be submitted by either party for settlement in accordance with the provisions specified in clause 17 (iii) hereof.
- (iii) If any dispute or difference of any kind whatsoever shall arise in connection with or out of this Contract and which is not amicably settled between the Internal Auditor Firm and SRRDA as per provisions of clause 17 (i) & (ii) of the agreement the same shall be referred for settlement to the Adjudicator in the person of the Secretary (or the Head) of the Nodal Department of the State Government within 14 days of arising of such disputes. The Adjudicator shall give a decision in writing within 28 days of receipt of a notification of dispute. Performance under the Contract shall continue notwithstanding the reference to the Adjudicator.

NOW, THEREFORE, IT IS HEREBY AGREED between the parties as follows:

1. The following documents attached hereto shall be deemed to form an integral part of this Contact:
 - (i) List of PIUs /SRRDA and their location (Annexure 1).
 - (ii) Terms of Reference (TOR) (Appendix 2).

- (iii) Price Bid (Form F-1).
 - (iv) Break up of Cost Estimates of Services (Form F-1A).
 - (v) Form T-3
 - (vi) Reimbursement Claims of the ADB Funded Projects (Schedule 1).
 - (vii) Item wise sample sizes of Internal Audit (Schedule 2).
 - (viii) Check List for Internal Audit (Appendix 3).
2. The mutual rights and obligations of the “Employer” and the Internal Auditor Firm shall be as set forth in the Contract, in particular:
- a) The Internal Auditor Firm shall carry out and complete the Services in accordance with the provisions of the Contract; and
 - b) The “Employer” shall make payments to the Internal Auditor Firm in accordance with the provisions of the Contract.

IN WITNESS WHEREOF, the Parties hereto have caused this Contract to be signed in their respective names as of the day and year first above written.

In presence of

1. (Signature & Designation of the authorized representative of SRRDA)

(Witnesses)

- (i)
- (ii)

In presence of

2. (Name/Signature of the authorized representative of Internal Auditor Firm)

(Witnesses)

- (i)
- (ii)



National Rural Roads Development Agency

Ministry of Rural Development, Government of India

5th Floor, 15 NBCC Tower, Bhikaji Cama Place, New Delhi - 110 066

Email : nrrda@pmgsy.nic.in, www.pmgsy.nic.in, www.pmgsyonline.nic.in