

TOR FOR HIRING AN INTERNAL AUDITOR FOR THE HIMACHAL PRADESH HORTICULTURE DEVELOPMENT PROJECT

I. BACKGROUND AND PROJECT DESCRIPTION

The Government of Himachal Pradesh through Government of India has applied for a Credit from International Development Association for implementation of Himachal Pradesh Horticulture Development Project (HPHDP). The project will support interventions designed to help the horticulture sector, improve productivity and build resilience against weather-related shocks, while improving market access to provide incentives for growers to produce as per the market need.

II. PROJECT COMPONENTS

1. The activities of the project are clustered around three main interlinked technical components that have the following purpose: (i) improving producer's access to knowledge and horticulture production technologies (including climate resilient technologies), and access to finance; (ii) promoting investments in agribusiness, fostering backward and forward linkages in horticulture product value chains, facilitating access to finance for agribusiness entrepreneurs, and, piloting negotiable warehouse receipts for horticulture commodities; and (iii) supporting the development of an improved platform for market-related information and intelligence, and upgrading and modernizing the promising traditional wholesale markets. The components of the project are as under:

2. **Component A: Horticulture Production and Diversification (US\$93.60 million).** The objective of this component is to enhance horticultural competitiveness at the farm level by supporting access to knowledge, technology and finance in order to increase long term productivity and farm incomes in an environment marked by changing market patterns and increased climate variability.

3. **Component B: Value Addition and Agro-enterprise Development (US\$43.40 million).** The objective of this component is to improve value realization at the farm level, promote investments in agribusiness, foster backward and forward linkages in value chains for horticulture products, support supply chain infrastructure that prevents wastage and value erosion; and enable secondary and tertiary processing that create higher value for the produce.

4. **Component C: Market Development (US\$19.20 million).** The objective of this component is to provide an improved platform for market-related information and intelligence, expand market access through alternative marketing channels, enhance transparency in the price discovery process, and improve market infrastructure. This will be achieved by: (i) supporting market information and intelligence services; (ii) introducing of e-marketing platforms; and (iii) upgrading wholesale markets.

5. **Component D: Project Management, Monitoring and Learning (US\$15.30 million).** This component will ensure the effective implementation of the project activities and monitor and evaluate project implementation progress, outputs and outcomes, building on implementation experience. This component will support: (i) establishment and operations of Project Coordination Unit (PCU), which will oversee and coordinate activities of the implementing agencies of the project; (ii) establishment and operations of Project Implementation Units in the respective implementing agencies; and (iii) setting up of a monitoring and evaluation (M&E) system for the project, including a project management

information system and contracting an external M&E agency to monitor project activities and impact. The component will also finance dedicated staffing for the project activities that are attributable to the outcomes of the project, consultancies, training and related material, office equipment, and operational costs.

More details are available on the project website <https://hds.hp.gov.in/>.

III. PROJECT FINANCING

The project is financed through a seven-year Investment Project Financing (IPF). The total project cost is US\$171.5 million funded by an IDA credit (US\$135.0 million equivalent), the GoHP (US\$33.7 million equivalent), and beneficiary contributions (US\$2.8 million equivalent). The project has been restructured in the year 2020 which has resulted in revision of the total project cost to US\$146.09. The cancellation has been adjusted across project components.

IV. PROJECT DEVELOPMENT OBJECTIVE

The Project Development Objective (PDO) is “to support small farmers and agro-entrepreneurs in Himachal Pradesh, to increase the productivity, quality, and market access of selected horticulture commodities.”

V. PROJECT BENEFICIARIES

The project beneficiaries include farmers and entrepreneurs especially in the micro-small medium enterprises (MSME) segment, farmer producer organizations, and other value chain participants. The project will contribute to inclusive growth by prioritizing support to small and marginal farmers in the state, with specific focus on fruit tree crops. The project will benefit about 150,000 producers. Of these beneficiaries, at least 33 percent are expected to be women. Indirect beneficiaries will include those who benefit from technologies demonstrated by the project, farmers whose produce goes through rehabilitated markets, and farmers accessing Negotiable Warehouse Receipt financing, etc. Rules, procedures, and guidelines will be employed to prevent possible elite capture.

VI. PDO LEVEL RESULTS INDICATORS

The Key Project Indicators (KPI) are:

- (a) Productivity (in ton/ha) (i) of rejuvenated apple orchards; and (ii) of new plantations of selected horticulture crops.
- (b) Percentage of Apple Grades A, B and C.
- (c) Share of selected horticulture commodities sold through new marketing channels for (i) Apple, and (ii) Tomato.
- (d) Direct project beneficiaries (number), of which female beneficiaries (%).

VII. IMPLEMENTING AGENCIES:

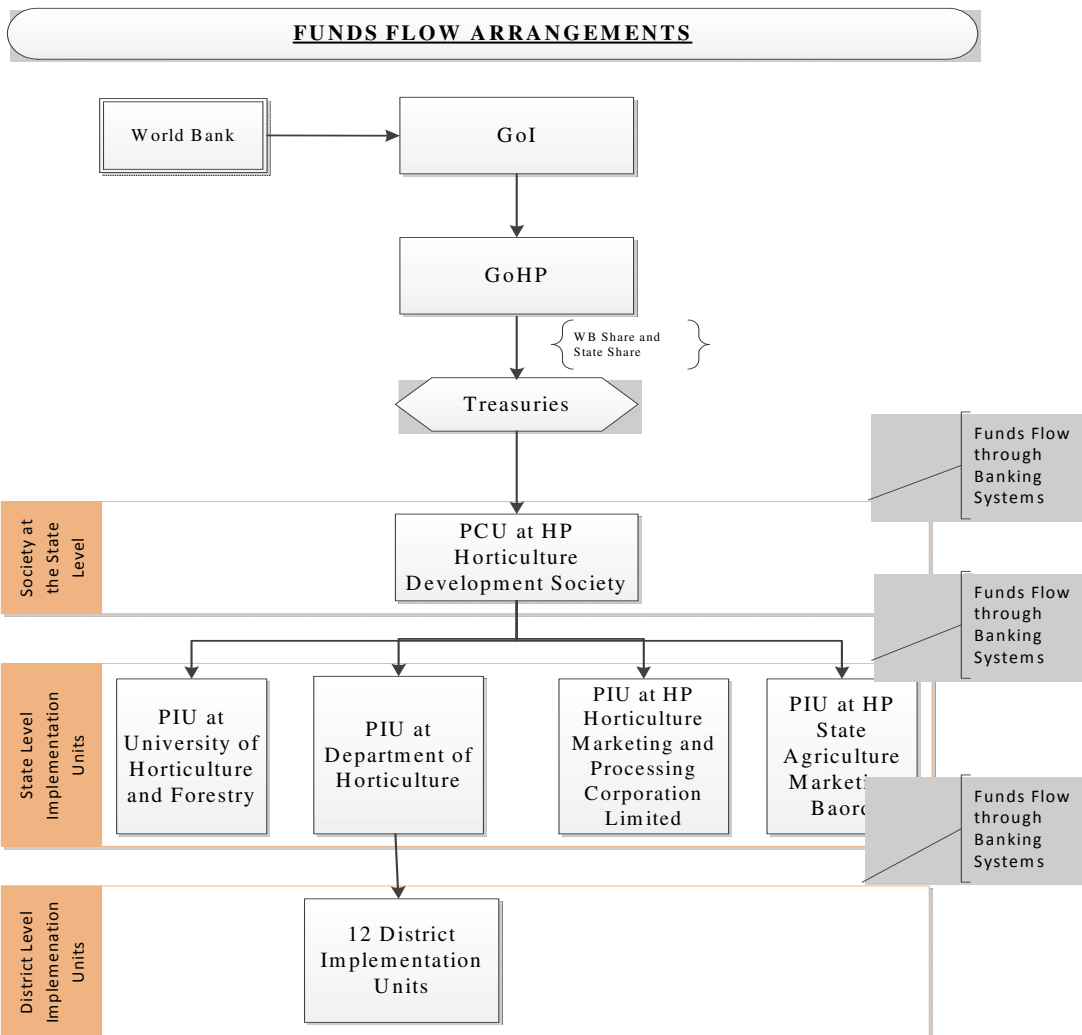
HPHDP has four implementing agencies: a) Department of Horticulture (the nodal agency through Himachal Pradesh Horticulture Development Society HPHDS); b) University of Horticulture and Forestry; c) HP Horticulture Produce Marketing and Processing Corporation Limited (HPMC); d) HP State Agriculture Marketing Board (Board). To ensure coordination

as well as manage implementation, a Project Co- Ordination Unit (PCU) has been established within HPHDS which is a society under the Himachal Pradesh Societies Registration Act. 2006. The Society is controlled by a Governing Council, chaired by the Chief Secretary, and an Executive Body, chaired by the Additional Chief Secretary – Horticulture. The relevant line Department/ autonomous bodies will act as implementing agencies (IA) for all the Project activities falling under their area of responsibilities. Each IA will designate a Nodal Officer for the project who will head the state level Project Implementing Unit (PIU) comprising technical staff, financial management and procurement staff. Day-to-day executive control rests with the Project Director, who heads the Society’s PCU. The Project Director is also responsible for overall implementation including responsibility for overall financial management, central level procurement, safeguards, M&E, supervision and other backstopping arrangements.

An independent special purpose vehicle (SPV) named “Himachal Pradesh Nurseries Cum Demonstration Orchards Development & Management (NMS)”, having a separate governance structure, financial and administrative autonomy has been formed as a ‘Society’ under HP Society Registration Act, 2006. This Society functions under its parent department i.e. Department of Horticulture.

VIII. ACCOUNTING, FLOW OF FUNDS AND REPORTING ARRANGEMENTS:

1. The Financial Management arrangements, including the internal control framework, are documented in detailed in the Community Operations Manual, Financial Management and Procurement Manuals.
2. The Project has 17 accounting centers which include: a) PCU; b) four PIUs at the Horticulture Department, University, HPMC and HPSAMB; c) 12 DIUs under the Department of Horticulture at the Districts.
3. Books of accounts are maintained under double entry system using cash basis of accounting. Accounts are prepared using Tally at all PIUs and PCU. Accounts are consolidated using ‘Sync’ feature of Tally. The accounts of NMS are maintained and audited separately.
4. Project funds flow from the Treasury system of GoHP to the Bank account of HPHDS at PCU. Periodic releases are made to the implementing agencies (PIUs/DIUs) based on AAP. Bank accounts with a common scheduled commercial bank have been opened at each accounting center. PCU uses RTGS/NEFT to transfer funds to PIUs/DIUs as well as to make payments, and cash payments are minimized. The fund flow chart is shown below:



5. Funds flow to NMS can be from PCU independently. These funds are granted to the SPV in the form of an advance to implement specific activities of modern nursery production which are to be adjusted upon the receipt of utilization certificates / expenditure report submitted by the SPV.
6. The PCU furnishes a quarterly consolidated interim financial report (IFR) to the World Bank for claiming Bank finance, which is submitted within 45 days of close of each quarter.

IX. OBJECTIVE OF THIS ASSIGNMENT:

The objective of these terms of reference is to hire an internal auditor for HPHDP.

The overall objectives of Internal Audit are to provide the project management with independent assurance that:

- the internal controls established by the management are designed appropriately and are commensurate to the nature and size of the project;
- to verify whether the overall financial management and specifically internal controls as documented in the project Financial Management Manual (FMM), Project

Appraisal Document (**specifically Annexure - 3 of PAD1637***) and the Project Implementation Plan (PIP) are in practice and working effectively.

- In addition, it is expected that internal audit should play a role in assisting management in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and internal controls.

*PAD1637 can be viewed on https://hds.hp.gov.in/UploadedImages/Document/pad_26Apr19113900AM.pdf

X. SCOPE OF THE ASSIGNMENT:

Internal audit will be carried out in accordance with the Framework, Principles and Standards on Internal Auditing issued by the Institute of Chartered Accountants of India. In conducting the audit, special attention should be paid to the following:

- a) All funds have been used in accordance with the conditions of the relevant legal agreements and only for the purposes for which the financing was provided. Relevant legal agreements include the Financing Agreement, the Project Agreement, Project Appraisal Document (PAD) and the Minutes of Negotiation.
- b) The monthly expenditure statement submitted by the PIUs and DIUs indicating the approved budget provision and expenditure during the month, cumulative expenditure against the activity / sub-activity during the year should be reviewed by the Internal Auditor.
- c) The procurement procedure adopted for civil works, goods and consultancy services should be reviewed by the Internal Auditor, and it should be ensured that correct procedures as per the World Bank Procurement Guidelines have been followed for each procurement.
- d) It should be ensured that the records of all procurement, agreements, work/purchase orders, invoices, receipts, stock registers etc. are properly maintained, and link back to the expenditures reported via Interim Unaudited Financial Reports (IUFs). The auditor should also review contract management arrangements of HPHDP and whether business standards for payment to contractors are being adhered to.
- e) The auditor shall review whether accounts have been prepared in accordance with consistently relevant government accounting standards.
- f) The auditor shall report on whether bank reconciliations have been carried out on a monthly basis. To verify that all payments or order for bank transfer are made under joint signatories of 2 officers of Implementation Agencies.
- g) The auditor shall review and report on whether the accounting for the advances to line departments/Implementation partners /PIU and concerned units are properly recorded in the accounting books; whether systems are in place for monitoring the receipt of periodic financial reports & follow up on overdue reports are adequate. Exceptions should be identified and reported.
- h) The auditor shall check that all the statutory liabilities are met with in the statutory time limits.
- i) The Internal Auditor should ensure that Fixed Asset Registers are being maintained by project participants. The FAR should include adequate information on assets created and assets acquired by the project, including description, details of cost, identification and location of assets. The Internal Auditor should carry out physical verification of a

sample of assets created out of the project and comment on its utilization. The internal auditor should check as to whether the terms and conditions of contract of building new infrastructure have been adhered to with respect to time and money.

- j) The auditor should ensure that project assets exist, are adequately safeguarded and are actually used for their intended purposes.
- k) The auditor should ensure the efficiency and timeliness of the funds flow mechanism at the State and District level and whether there are delays which could impact the timely implementation of project. The auditor should also identify and report the reasons for such delays and possible remedial measures.
- l) The Internal Auditor will audit the utilization of the funds transferred to NMS to ascertain that funds have been utilized as per World Bank Guidelines/norms, especially the procurement procedures.
- m) The auditor should ensure that all Beneficiary Contributions records are maintained as per the terms and conditions stated in the Financial Management Manual and that the compliances as to banking arrangements are met.
- n) The auditor should ensure that all necessary supporting documents, records etc, have been separately filed in respect of all project activities and that clear linkages exist between the supporting documents, accounting books and records and the periodic financial reports from the respective spending units.
- o) The auditor shall review and report on whether the IUFs are submitted in a timely manner, whether release of funds is conditional to receipt of IUFs and report exceptions, if any.
- p) The auditor should ensure all project funds received under the project have been used with due attention to economy, efficiency and effectiveness.
- q) The auditor shall check the implementation and effectiveness of internal controls.
- r) While conducting internal audit in a subsequent phase the auditor will ensure that the compliance report on audit observations pointed out in the reports relating to earlier audit is made and corrective actions taken on those points are furnished in the Audit Report of the subsequent phase.
- s) Routine errors of omission or commission noted during the course of internal audit may be rectified on the spot.
- t) In addition, the auditor shall compile the annual project financial statements of HPHDP, which shall include the Balance Sheet, Statement of Sources & Application of Funds, Statement of Receipts & Payments, Notes to Accounts, Income and Expenditure Statement and Annexures.
- u) Internal Auditor is expected to go at field level, WUAs, PCDO and Project sites.

XI. COVERAGE OF THE AUDIT:

1. *Physical coverage of audit:* The project spans across the 12 districts of HP and the auditor is expected to cover all 12 districts during a year. All project implementing agencies must be audited during each half year, including the SPV, NMS, and the PCU. All consultancies and contracts entered into by implementing agencies for project purposes shall be included

within the scope of audit. It should be noted that the intensity of activities varies across districts.

2. *Extent of Audit:* The auditor will undertake a review of 50 – 70% of the transactions by value, keeping in mind the risk assessed at each unit. All transfers of funds to various DDO accounts by the GoHP are to be checked and verified.
3. *Period, Timing and Sample coverage of Internal Audit:* The Internal Audit will be for two years starting from the Financial Year 2021-22 and 2022 -23. The audit shall be conducted on a half yearly basis for all accounting centers. The auditor will draw up a half yearly audit plan within 15 days of the start of the period in consultation with the management, i.e. PCU and PIUs.

XII. REPORTING:

Half Year Reporting: Internal Audit Reports containing the following elements should be submitted to the Audit Committee on a half yearly basis:

- The objective and scope of the internal audit.
- A summary of the internal auditing procedures performed.
- The internal auditor's opinion as to the overall adequacy of the systems of internal control and its implementation.
- Key management issues: The Internal Auditor will report the critical issues unit wise i.e. PCU, PIU, and DIU. The Internal Auditor should provide an Executive Summary highlighting the critical issues which require the management's attention and the status of actions on the previous recommendations.
- Detailed internal audit findings of each unit audited, with adequate descriptions of weaknesses identified and the associated impacts and risks.
- Appropriate and reasonable recommendations to address the identified weaknesses.
- A separate, brief summary of the findings on review of procurement aspects with reference to the Procurement Manual, Financial Management Manual and Annual Work Plans.
- Responses to findings and recommendations by authorized persons stating the timeline for remediation and the person responsible.
- Audit queries/remarks/observations/suggestions should be bifurcated unit wise i.e. PCU, PIU, DIU. The reporting should be done on "report by exception basis" and rest should be maintained as working papers. The main audit report (which is unit wise) should be bifurcated in three parts, first is critical issues/ serious queries which need management attention, second is queries which are not yet solved/sorted and third is queries of important nature although which have been solved but are of such significant nature which warrants that these should be known to the management.
- Besides the above internal audit procedures, the information demanded through audit questionnaire by the management should be provided unit wise in each report.
- Communication/Presentation to Senior Management: The auditor will present to all the Nodal Officers/ Concerned Incharge the findings of the half yearly reports and on six monthly bases will present his findings to the Project Director.
- The report should be discussed and agreed with the auditable units and should be structured to list the observations, the implications of the observations, the suggested recommendation and the management comments/agreed actions. The audit observations should be supported by instances and quantified, as far as practicable. The

audit report of the previous period should be submitted within two months of end of the period. Compliance Summary of audit paras raised in previous audit report will be part and parcel of internal audit report.

- Separate report on Audit of Sample WUAs/ agro enterprises under Agri-Business Promotion Facility (ABPF) and Farmers Produce Organization (FPOs) is to be furnished.

XIII. QUALIFICATIONS & EXPERIENCE OF CONSULTANT

The project would like to hire a CA Firm fulfilling the following criteria for conduct of project internal audit:

- The Firm should have its head office/branch office in H.P.
- The Firm shall have a standing of at least 10 years in the profession and should be empaneled with CAG. The firm should submit documentary evidences for the same.
- The Firm shall have at least 3 full time partners. The firm should submit documentary evidences for the same.
- The Firm shall have sufficient number of staff to handle the audit of the project. The firm shall furnish details of (i) partners (full time and part time); (ii) qualified CAs working at the firm (FCAs and ACAs); (iii) semi qualified staff working at the firm (iv) other staff (articles/ audit clerks, paid assistants). The details shall include – name, no. of years of experience/year of article ship, short description of experience (for partners, FCAs and ACAs) in tabular form along with documentary evidence.
- The firm should have completed at least 4 internal or statutory audit assignments of Externally Aided Projects, Government Department/ Companies / Boards, Societies, in the last 5 years and shall be familiar with Government Rules & Regulations. The details of the same should be submitted.

The internal audit team shall comprise of the following Key personnel, whose CVs will be evaluated for this assignment:

S.No.	Particulars	Staff Req	Qualification required	Expected days to be put in during 1 year
(a)	Project Leader (PL)	1	Chartered Accountant with at least 15 years of post-qualification experience and at least 7 years of experience in leading internal audit assignments in India	2 days
(b)	Audit Task Leader (ATL)	1	Chartered Accountant with minimum experience of 6 years, with at least 3 years of experience as a Manager of internal audits assignments in India	30 days
(c)	Senior Audit Asst.	2	C.A. Inter with audit experience of minimum 18 months.	40 days

XIV. TENURE: This assignment shall span project internal audit for FY2021-22 and FY2022-23. In case of extension of the life of the project, the assignment shall be extended to become co-terminus with the life of the project and cover the extended period.

XV. FEES: **The annual internal audit fee for this assignment is fixed at INR 2,50,000 plus reimbursement out of pocket expenses calculated at the rates applicable to a Govt. Officer / official.** (The Firm should consider Shimla as the establishment base and accordingly calculate the per diem (per day) rate for re-imbusement of traveling, lodging, communication and other expenses incurred covered under OPE). This the payment of the fees will be done by the Project Co-ordination Unit (PCU) within 2 months of submission of the final half yearly internal audit report by the Firm.

XVI. DATA SUPPORT TO BE PROVIDED BY HPHDP:

1. **Project Audit Review Committee:** The audit committee at PCU will keep a watch on the pending audit objections raised by the auditor and take actions for the speedy settlement of the objections by timely follow up. The audit committee will be set up under Project Director.
2. The auditor would be given access to all documents, correspondence, and any other information relating to the project and deemed necessary by the auditor (including all contract document, sub-project agreements, final audit reports submitted by the concern units). the auditor should become familiar with the project, and with the relevant policies and guidelines of the world bank (including those relating to disbursements, procurement and financial management and reporting).
3. The auditor would be provided copies of the Project Implementation Plan; Project Appraisal Document (PAD) of the World Bank; Legal Agreement, Project Agreement with IDA (including agreed minutes of negotiations); Procurement Manual, Annual Procurement Plan, Financial Management Manual and Annual Work Plans.
4. Adequate information, files, records and physical assets for verification will be made available to the auditor.

XVII. GUIDANCE FOR THE AUDITOR ON AUDIT PLANNING & EXECUTION:

The auditor shall prepare an audit programme and plan within 15 days of appointment in coordination with the Accounts & Finance team of HDHDP and agree on the same with the Finance Controller, HPHDP. The auditor shall submit the detailed work plan to the Finance Controller and Project Director and inform the Project Director before the start of Audit.

The detailed approach and methodology should be provided by the auditor. The auditor shall interact with a variety of stakeholders during the course of the audit. He shall be expected to discuss his finding with the management before issuing the final report. He may also be required to brief a larger audience, present his findings to them and offer risk mitigation suggestions to the project. Feedback, as necessary, shall be given to the management on the findings of the audit from time to time. Information about any discrepancies can be shared with the management for rectification/clarification.

The auditor should ensure that the Finance Controller is kept in the loop of all the discussions and correspondence. The Finance Controller shall serve as the Nodal Officer for the internal auditor for this assignment.