

UTTARAKHAND HEALTH SYSTEMS DEVELOPMENT PROJECT

TERMS OF REFERENCE FOR STATUTORY AUDIT SERVICES

Assignment Title:

1. **Conducting Statutory Audit of the Uttarakhand Health System Development Project (UKHSDP):** UKHSDP intends to engage a qualified CA firm for carrying out Statutory Audit Service, covering all components of the project under these terms of reference.

Project Background

2. Uttarakhand Health Systems Strengthening Project (UKHSDP) is conceived as a strategic initiative to enhance people's access to quality health care services in the state of Uttarakhand. The Project is financed by the World Bank and implemented by Uttarakhand Health and Family Welfare Society (UKHFWS). The project seeks to support Uttarakhand in improving access to quality health services and in providing health financial risk protection. Specifically, the project would focus on improving access to health services for the predominantly remote population of the state, through strengthening public and private health-delivery systems; promoting greater stewardship and managerial capacity in the health directorate; improving information systems; augmenting monitoring and research; and extending coverage of state health insurance scheme beyond hospitalization to include primary healthcare services.
3. GoUK has received financing from the International Development Association (the "Bank") for an amount equivalent to US\$ 100,000,000 ("Credit"), towards the cost of the Uttarakhand Health Systems Development Project, and intends to apply a portion of the proceeds of this Credit to eligible payments for consultancy services for Conducting Gap Analysis of Five Health facilities for Entry Level NABH Standards in Uttarakhand. Payments by the Bank will be made only at the request of the Authority and upon approval by the Bank, and will be subject, in all respects, to the terms and conditions of the financing agreement executed between the Government of India and the Bank ("Financing Agreement").
4. Project is to be implemented over six years with total cost of USD 125 Million, out of which the World Bank will provide financial support of USD 100 Million. The project has two components as follows:
Component 1: Innovations in engaging the private sector (US \$ 80 million)
 - a. Innovations in integrated delivery of healthcare services (US \$ 47.5 million)
 - b. Innovations in healthcare financing (US \$ 32.5 million)Component 2: Stewardship and system Improvement (US \$ 45 million)

PROJECT IMPLEMENTATION ARRANGEMENTS

5. The implementing agency for the project is the UKHFWS constituted under the Department of Medical Health and Family Welfare (DoMHFW), GoUK. The Mission Director (PD) for the UKHSDP, who leads the project implementation under the overall guidance and supervision of the Principal Secretary/Secretary, DoMHFW, who is also the chairman of the Uttarakhand Health and Family Welfare Society (UKHFWS). Each of the key implementation areas is coordinated by a focal point within the UKHFWS and supported by a core project team.

FUND FLOW MECHANISM

6. The UKHFWS, an implementing body of the NHM in the state, has functioning FM systems, which meets the requirements of the project and the World Bank reporting. The current system of transferring financial resources from the budget to the UKHFWS's bank account is being followed by the project.
7. UKHSDP is implemented under Uttarakhand Health & Family Welfare Society. The project accounts will be maintained in Tally software as is being done in society. The books of account that provide the basis for preparation of the PFS are established to reflect the financial transactions of the project and are maintained by the project implementation agency (UKHSDP) at the head office.

Objective

8. The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion as to whether (1) the PFS present fairly, in all material respects, the sources and applications of project funds for the period under audit examination, (2) the funds were utilized for the purposes for which they were provided, and (3) expenditures shown in the PFS are eligible for financing under the relevant loan or credit agreement. In addition, the auditor will express a professional opinion as to whether the IUFRR submitted by project management may be relied upon to support any applications for withdrawal.

Scope

9. In conducting the audit, special attention should be paid to the following:
- a) All external funds have been used in accordance with the conditions of the relevant legal agreements and only for the purposes for which the financing was provided. Relevant legal agreements include the Financing Agreement, the Project Agreement, and the Minutes of Negotiations;

- b) Counterpart funds have been provided and used in accordance with the relevant legal agreements and only for the purposes for which they were provided;
- c) All necessary supporting documents, records, and accounts have been kept in respect of all project transactions including expenditures reported via IUFs where applicable. Clear linkages should exist between the books of account and reports presented to the Bank; and
- d) The project accounts have been prepared in accordance with consistently applied Accounting Standards and present fairly, in all material respects, the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.
- e) All expenditure, including procurement of goods, works and consulting services have been carried out as per the Project Procurement Manual and World Bank Procurement and Consultant Guidelines.
- f) The Auditor shall carry out sample physical verification of assets as required by the auditing standards

Project Financial Statements (PFS)

10. The Project Financial Statements should include: -

- a) Statement of Sources and Applications of Funds: The formats of PFS are set out in Annexure 1.
- b) Reconciliation of Claims to Total Applications of Funds. The PFS include reconciliation between expenditure reported as per the Statement of Sources and Applications of Funds and expenditure claimed from the World Bank through IUF. The formats are outlined in Annexure 2.
- c) Management Assertion: Management should sign the project financial statements and provide a written acknowledgement of its responsibility for the preparation and fair presentation of the financial statements and an assertion that project funds have been expended in accordance with the intended purposes as reflected in the financial statements. An example of a Management Assertion Letter is shown at Annexure 3.

Interim Unaudited Financial Reports (IUF)

11. In addition to the audit of the PFS, the auditor is required to audit all Interim Unaudited Financial Reports (IUFs) for withdrawal applications made during the period under audit examination. The auditor should apply such tests as the auditor considers necessary under the circumstances to satisfy the audit objective. In particular, these expenditures should be carefully examined for project eligibility by reference to the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted and qualified by the auditor.

Standards

12. The audit will be carried out in accordance with the Auditing Standards promulgated by the ICAI. The auditor should accordingly consider materiality when planning and performing the audit to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purposes other than as defined in the legal agreement remains with the project, the audit should be planned to have a reasonable expectation of detecting material misstatements in the project financial statements.

Audit Report

13. An audit report on the PFS should be prepared in accordance with the Auditing Standards promulgated by ICAI. Those standards require an audit opinion to be rendered related to the financial statements taken as a whole, indicating “unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.” In addition, the audit opinion paragraph will specify whether, in the auditor’s opinion, (a) with respect to IUFRs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and (b) except for ineligible expenditures as detailed in the audit observations, if any, appended to the audit report, expenditures are eligible for financing under the Loan/Credit Agreement.

Management Letter

14. In addition to the audit report on the Project Financial Statements, the auditor may prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination. Where a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank.

General

15. The auditor should be given access to any information relevant for the purposes of conducting the audit. This would normally include all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. The information made available to the auditor should include, but not be limited to, copies of the Bank’s Project Appraisal Document, the relevant Legal Agreements, a copy of these Guidelines, and a copy of the Bank’s Financial Management Assessment of the project entity. It is highly desirable that the auditor become familiar with other Bank policy documents, the Bank’s internal guidelines on Financial Management that include financial reporting and auditing requirements for projects financed by the World Bank. The auditor should also be familiar with the Bank’s Disbursement Manual. Both documents will be provided by the Project staff to the auditor.

Period of Assignment

16. The assignment would be for the FY 2019-2020. This period could subsequently be extended for a further period, on a yearly basis based on mutual agreement between the client and the consultant.

Timeline for submission of the report

17. The audit report should be submitted within 8 (eight) months from the end of the FY. The PFS will be provided by the project to the auditor by 31st July, 2020 The Project Financial Statements and the audit report should be received by the Bank not later than 9 (nine) months after the end of the fiscal year. The auditor should also submit two copies of the audited accounts and audit report to the Implementing Agency.

Key Personnel

18. The list of key personnel required for the audit is as under:

Key Professionals	Description of Services to be provided	Experience	No. of persons	Total Man months
Partner	Overall coordination, & planning, team leadership, reporting, liaison with client	Qualified Chartered Accountant with at least 10years' experience as a partner with expertise in statutory audit of external aided projects, its planning, execution and reporting	1	1 x 0.5=0.5
Managers	Onsite audit (The lockdown due to COVID-19 is expected to open after the end of 5 th lockdown i.e. after June 2020 and therefore Audit is required to be done onsite. However, in case of unforeseen circumstances like a further prolonged lockdown, embargo on travel or movement, the auditor and the project would work on the best possible way to carry out and complete the audit.)	Qualified Chartered Accountant with at least 5 years' experience with expertise in statutory audit of external aided projects	1	1 x 1 =1

Note: Audit assistants/Article assistants will be provided by the firm as deemed necessary by them for the project

PFS format

Annexure 1**UKHSDP PROJECT**

Sources and used of Funds (Amount in Rs. Lakhs)

Particulars	Expenditure	Non claimable	Eligible Expenditure	Reimbursement %	Reimbursable amount
	FOR the year	FOR the year			
<i>Sources</i>	1	2	(3) = (1) - (2)	4	5=3x4
<i>Opening Bank Balance</i>					
Add: Amount received during the year					
Add: Interest					
<i>Total Sources</i>					
Expenditure by Component:					
Component 1: Innovations in engaging the private sector					
Sub-component 1.1: Innovations in integrated delivery of healthcare services					
Sub-component 1.2: Innovations in Healthcare Financing					
Component 2: Stewardship and System Improvement					
Project core team and office expenses					
Capacity building, Information System, Research as per PP					
TOTAL Uses (PROJECT EXPENDITURE)					
<i>Closing Balance</i>					

Director Finance**Project Director**

Notes:

1. This financial statement is prepared on _____ basis of accounting.
2. Any other project specific Note.

Annexure 2

UKHSDP PROJECT
Reconciliation of Claims to Total Applications of Funds

(Rs. in Lakhs)

Particulars	Schedules	Current Year	Previous Year	Project to date
Bank Funds claimed (A)	I			
Withdrawal claims for 1 st half year as per IUFR				
Withdrawal claims for 2 nd half year as per IUFR				
Total Bank funds claimed				
Total expenditure made during the year (B)				
Expenditure as per books of account				
<i>Less:</i>				
<i>Ineligible expenditure (C)</i>	II			
<i>Expenditures not claimed (D)</i>	III			
Total eligible expenditure claimed (E)=(B)-(C)-(D)				
World Bank Share @ 80% of (E)=(F)				
Excess/ Shortage of claims over expenditure (A)-(F)				

Director Finance

Project Director

Notes:

1. Total expenditure made during the year (B above) must be the same as the Total Project Expenditure (A) shown on the Statement of Sources and Applications of Funds.
2. Expenditures not claimed (D above) may reflect timing differences for eligible expenditures incurred during the year but claimed after the year end.

Management Assertion Letter¹

To,
XXXXXXXX

This assertion letter is provided in connection with your audit of the financial statements of the UKHSDP for the year ended _____. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the **cash/accrual** basis of accounting, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The project financial statements are free of material misstatements, including omissions.
2. Project funds have been used for the purposes for which they were provided.
3. Project expenditures are eligible for financing under the Loan/Credit agreement.
4. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the project financial statements.
5. We have made available to you all books of account and supporting documentation relating to the project.
6. The project has complied with the conditions of all relevant legal agreements, including the Financing Agreement, the Project Appraisal Document, and the Minutes of Negotiations.

[Project Director(s)]

(Director Finance)

Audit Report format

<on the letter head of the auditor>

Annexure 4

Sample Audit Report—Unqualified Opinion

Independent Auditor’s Report

To,

<appropriate addressee e. g. the Board of Directors/Governing Body or the Project Director>

Report on the Audit of the Project Financial Statements

Opinion

We have audited the accompanying special purpose financial statements of *Uttarakhand Health System Development Project* financed by the International Development Association (IDA) Credit IN-5948 and implemented by *Uttarakhand State Health Society*. These financial statements comprise of the *<mention the financial statements that have been audited as per terms of reference>*², and notes to these financial statements, including a summary of significant accounting policies (collectively referred to as the “Project Financial Statements”).

In our opinion, the aforesaid special purpose Project Financial Statements give a true and fair view of the *<financial position of the Project as at March 31, 20XX, in case a Statement of Financial Position is prepared>*, income and expenditure statement (**where applicable**), receipts and disbursements of the Project for the year ended on March 31, 20XX and the expenditure of the Project for the year ended on March 31, 20XX, in accordance with the financial reporting provisions of Section 5.09 of the General Conditions of the World Bank read with the Financing /Loan Agreement *<select as applicable>* and Project Agreement both dated *<insert date of the agreement>* described in Note *XXX*.

Basis for Opinion

² For example - (i) Statement of Sources and Uses of Funds, (ii) Statement of Expenses by Project Components/Sub-Components, (iii) Statement of reconciliation of claims, and (iv) Receipts and Payments account. A statement of Financial Position may be included.

We conducted our audit in accordance with the Standards on Auditing issued by Institute of Chartered Accountants of India (ICAI). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the implementing agency in accordance with the ICAI's Code of Ethics for undertaking this assignment, and we have fulfilled our ethical responsibilities in accordance with ICAI's Code of Ethics³. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter⁴

We draw attention to Note XXX to the PFS describing the basis of accounting. The PFS is prepared to assist the *Uttarakhand Health System Development Project* to meet the financial reporting requirements of the Project's Financing *Agreements <select as applicable>* for Investment Project Financing dated _____ in respect of preparation of the Project Financial Statements in a manner to reflect the operations, resources and expenditures related to the Project. As a result, these special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and those charged with Governance for the Project Financial Statements

The Management of the implementing agency is responsible for the preparation and fair presentation of the Project Financial Statements in accordance with the financial reporting framework⁵ described in Note XXX to these financial statements, and for such internal control as management determines is necessary to enable the preparation of Project Financial Statements that are free from material misstatement, whether due to fraud or error.

The Management and those charged with governance are responsible for overseeing the implementing agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the Project Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Standards of Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

³ In case the implementing agency is a company, mention that ethical requirements of the Companies Act, 2013 have been complied, as illustrated in the Standard of Auditing 700

⁴ The auditor may add other points on which it wishes to draw emphasis

⁵ Refer to Standard on Auditing 700 (revised), para 7(b)

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standard of Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Project Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the Project Financial Statements, including the disclosures and whether these financial statements present the Project's operations and underlying transactions and events in a manner that achieves fair presentation in accordance with the financial reporting provisions described in Note XXX to the Project Financial Statements.
- communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matter

*<where a separate entity report is required to be issued, this para may be inserted>*The implementing agency <name of the implementing agency/s> has prepared a separate set of entity financial statements for the year ended March 31, 20xx on which we *<OR write the name of the audit firm which issued the audit report>* have issued a separate auditor's report to the Governing

Body/Shareholders <select as applicable>dated <date of the audit report>and expressed an unmodified/modified <select as applicable>audit opinion.⁶

Report on Other Legal and Regulatory Requirements <select/modify the below as applicable per the terms of reference >

Further to our opinion on the Project Financial Statements we further report that:

- a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b) in our opinion, proper books of accounts have been kept by the implementing agency for Project purposes so far as appears from our examination of those books;
- c) the Project Financial Statements dealt with by this report is in agreement with the books of accounts;
- d) the Project funds were utilized for the purposes for which they were provided;
- e) expenditures, including assets created under the Project, shown in the PFS are eligible for financing under the Project Financing Agreements;
- f) Interim Financial Reports (IFR) submitted by the Project management can be relied upon to support applications for withdrawal of the Loan, and adequate supporting documentation has been maintained to support these claims;
- g) Procurement has been carried out in line with the agreed procedures as detailed in the Operations Manual/Procurement Manual/Project Implementation Plan/Legal Agreements; and
- h) the Project has an adequate internal financial control system (including IT controls) and such controls were operating effectively as at March 31, 20XX and the Project complies with the provisions on financial management contained in the Operations Manual/ Project Implementation Plan/ Financial Management Manual, in all material aspects.

For XYZ & Co
Chartered Accountants
<Firm's Registration No. XXXX>

Signature
< name of CA signing the audit report>
<Proprietor/Partner>
(Membership No. XXXXX)

Place of Signature:

Date:

UDIN⁷: (UDIN number to be provided for the certificate)

⁶This para may be modified in case separate audit report has been issued for the year other than the year of current audit. The auditor is also expected to consider the key qualifications made by the auditors on the entity financial statements and decide if these affect the opinion of the auditor on the Project Financial Statements.

⁷The auditor should enter the total project expenditure during the year and additionally select from the following for entering in UDIN Portal: total funds received during the year; closing balance in project bank account; cumulative project expenditure.