Indian Council of Agricultural Research
National Agricultural Higher Education Project (NAHEP)
KAB-II,Pusa,New Delhi-110012

File No: 2(3)NAHEP(MISC)01/2019-20/01 Date: 10/02/2020

CIRCULAR

Common Observations in Internal Audit Reports (Lochan & Co.)

Dear Implementing Universities,

M/s Lochan& Co. have been engaged as internal Auditors for NAHEP. On examination of reports submitted by the internal auditors, it is seen that there are some common observations which can be avoided in the financial management of the project. Such observation and action to be taken in such cases is given below for guidance of NAHEP participating Universities:

1. **Prescribed records not maintained separately:**

   As per project guidelines, all transactions related to NAHEP are to be carried out through a separate Bank account and all prescribed records are to be maintained separately. All universities may ensure that this is followed strictly. Further, these records may be kept safe for a period of 5 years after project closure for inspection by ICAR/ World Bank authorities.

   As per Clause 6.2 (i) of Financial Management System Manual provides that each implementing centres are required to maintain separate Cash Book, Cheque Book/DD Register, General Ledger, Journal Register, Contract Register, Bill Register, Grant Register, Project-wise Expenditure Control Register, Asset Register, Advance Register, Objection Book, as in case of institution funds.

2. **No documentation of institutional expenses:**

   Any expenditure incurred under the sub-project including ‘Institutional Charges’ is to be certified by the auditors and only then it will be eligible for reimbursement by the World Bank**. Therefore, such expenditure should also be incurred through EAT Module of PFMS NAHEP account only and original vouchers should be shown to the auditors. Transfer of funds to institute account is not at all permissible. Chapter no.4 Project Selection serial no.4.2(II(3)) of Amended FMM.**

3. **GST concession not availed:**

   Implementing agencies registered with Department of Scientific and Industrial Research (DSIR), Ministry of Science & Technology, Government of India are eligible for concessional GST. As per Notification number: 45/2017- Central Tax (Rate) dated 14 November 2017, GST applicable on purchase of research and other equipment’s is 5% (not normal rate of 12% -28%). Hence, Universities are eligible to procure research and other equipment’s at concessional GST rate of 5%. It is noted that, universities have not used DSIR certificate in many cases to procure equipment's on concessional GST rate and rather procured the same at normal GST rates ranging from 12%-28% and paid excess GST which could have been avoided.

4. **World Bank documents/procedure not followed in procurement of goods/ works:**

As per project guidelines, **World Bank prescribed documents and procedures are to be followed in procurement to be made under NAHEP subproject.** Institutional procurement rules/ guidelines are not applicable. In case World Bank documents/ procedures are not followed, such procurement can be disallowed by World Bank auditors, in which case liability will be with the partner Institution.

5. **Assets register not maintained/ incomplete:**

Implementing Universities are required to maintain a separate asset register to keep a record of assets (Non-recurring goods) procured under NAHEP sub project. **The assets so procured should be in conformity with the Non-recurring items sanctioned in the sub project and the assets shown in the schedule-5 of Annual Accounts. All the assets should also be tagged so as to facilitate physical verification**.

- Clause 8.3 (iv) of Financial Management System Manual provides for requirement of maintenance of asset register for the project assets.
- Clause 8.3 (xiii) of Financial Management System Manual provides for format of asset register in accordance of General Financial Rules 2017.

6. **Non-compliance of PFMS:**

It has been reviewed some universities are making cash payment instead of making payment via PFMS. It is pertinent to mention here that the PFMS is mandatory, the expenditure is to be booked using Expenditure, Advance & Transfer (EAT) Module of PFMS. **All the Universities receiving grant under the Scheme code 3646 (NAHEP EAP) shall configure/map all the agencies till last level of implementation on PFMS to track fund flow and the unspent balances. Non-compliance of PFMS will lead to adverse observations. Cash transactions are inherently more risky than other types of transaction due to greater exposure to misappropriation of funds and reduced traceability of expenditure.**

During the World Bank mission, it has been reviewed seriously, and non-compliance of PFMS may lead to serious adverse observation.

7. **Interest/Revenue earned not remitted to PIU:**

As per project guidelines, revenue generated in the NAHEP sub projects is to be remitted to PIU-NAHEP. Therefore, all universities should remit the receipts generated in the sub project to PIU-NAHEP after the close of Financial year.

- Clause 8.3 (viii) of Financial Management System Manual provides that "Revenue/ Interest generated if any, during the project period will be refunded to PIU at the close of financial year."

8. **Quarterly Submission of IUFR and SoE within deadlines as under**:

   It has been noticed that the universities are not submitting the IUFR/ SOEs within the prescribed time. The same has been taken adversely by the World Bank.

- Clause 6.3 (ii) of Financial Management System Manual provides that "It will be mandatory for all the subprojects to operate and report through the Financial Management System and submit quarterly reports on funds utilization i.e. statement of Expenditure (SoE) /IUFR directly to the PIU."
- **Clause 6.6 of Financial Management System Manual includes a vital date sheet which provides the due date for submission of quarterly IUFR. Within 15 days after the completion of each quarter, AU should submit the IUFR to PIU.**

9. **Preparation of Bank Reconciliation Statement every month**:
   It is observed by the internal Auditors that many universities are using common bank account for NAHEP funds which is against the project norms and the reconciliation of bank statement could not be possible in a effective way.

   Clause 8.1 of Financial Management System Manual of NAHEP states that "As per the World Bank requirement, a separate bank account (Integrated with PFMS Portal) is to be operated for monetary transactions under NAHEP. Each implementing agency is to open only one bank account for all the NAHEP projects."

10. **Non settlement of Advances**:

    Implementing agency should not report the advances in the quarterly IUFRs / Statement of expenditure unless it is actually incurred. Universities shall monitor the advances on monthly basis and get the advances settled on time and should reverse the advance from IUFRs / Statement of Expenditure and accordingly submit the revised IUFR / Statement of Expenditure.
    Clause 6.2 (ii) of Financial Management System Manual of NAHEP states that "*all advances are accounted for as advances and not expenditures until the advances are settled and converted into expenditure*".

    Universities are advised to settle all the advances outstanding as on 31st March i.e end of financial year to avoid the lapse of unutilised funds. Chapter no.10 FMM Amendments

11. **<u>Expenditure incurred in excess of the sanctioned Amount</u>**:

Implementing agency should keep in mind that funds must be utilized strictly in accordance with the approved allocations for the sub-project as envisaged in the sanction following the World Bank guidelines/procedures and the term and conditions of the projects. Any over-utilization or utilization not in accordance with the sanction is not reimbursable." *The amount sanctioned under each head / subhead is the maximum budgetary limit for that item, but the actual expenditure will not exceed the amount actually released under the head for the period concerned*".

One of the example of the over utilization reported by the Internal Auditors:

(Amount in INR)

Budget Head	Budgeted Amount	Actual Expenditure	Over Utilization
Mechanical Mixer	150,000	802,593	652,593

Hence, over utilization of INR 652,593 is considered to be ineligible.

12. **<u>Conflict of Interest:</u>**

Clause 1.8.1.1 of the Procurement Manual provides that "Bank Policy requires that a firm participating in a procurement process under Bank-financed projects shall not have a conflict of interest. Any firm found to have a conflict of interest shall be ineligible for award of contract."

13. **<u>The World Bank would not finance the list of activities is given in detail as per FMM clause 5.4 listed below: (Though this is not the exhaustive list)</u>**

a) Items of expenditure not related to the Project components as defined by the legal agreements.
b) Goods works or services not procured in accordance with procurement guidelines of the World Bank.
c) Payments made or due for goods, works and services delivered/constructed/provided after the closing date of the project i.e. November 30, 2022.
d) Any land acquisition costs.
e) Late payment penalties that were incurred in connection with a disputed payment which was under arbitration.
f) Advance payments other than secured mobilization advances paid to contractors as per the terms of contracts.
g) Refundable deposits paid by the implementing agency, if any (security deposits etc.)
h) Amounts parked in deposit/Bank accounts of implementing entities and accounted for as expenditure without expenditures being actually incurred.

i) Any other expenditures disallowed by the auditor. However, in this case the auditee will be allowed to justify eligibility along-with the requisite evidence if the expenditure is actually eligible for financing by the Bank. If the auditor is satisfied, the expenditure could be re-certified.

14. Other observations reported by the Auditors:

1. Cheque issued but not immediately handed over to the vendor
2. Transfer of funds to other bank account reported as expenditure in quarterly IUFRs/ Statement of Expenditure.
3. Demand draft prepared was reported as expenditure.

15. Proper and full utilization of grants, without leaving any unspent balance:

The Implementing Universities are required to plan the expenditure prudently, to ensure that the no unspent balance at the closing of FY. unutilized funds will lapse and invite criticism also.

All Implementing Universities are requested to ensure that the above directions are fully adhered to. This will greatly help in reducing audit disallowances and consequent liability on participating universities.

This issues with the approval of Director(Finance),ICAR and National Director, NAHEP.

Thanking you

Finance Team
NAHEP