

**Annexure A**

(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-  
Part(1) dated 23<sup>rd</sup> April, 2020)

**Revised Annexure A-I: Amendment to be signed where Contract is already signed**

**AMENDMENT TO THE CONTRACT**

**Supply of <name of item>**

Signed between

**<name & address of Purchaser>**

and

**<name & address of Supplier> on**

**<date of signing the original contract>**

Further to the contract executed as said above, an amendment to the contract is made on the \_\_\_\_ day of <month>, 2020.

**Article 1 – Purpose**

As this Contract is to be co-financed by the World Bank and Asian Infrastructure Investment Bank (AIIB), the present amendment has the purpose to add the provisions (attachment 1 and 2) required by World Bank and AIIB.

**Article 2 - Validity of Contract clauses**

All other clauses of the original contract including all the Appendices remain unchanged

**Article 3 – Effectiveness of this Amendment**

The present Amendment will be effective retrospectively from the date of signing of original contract.

**Read and Agreed**

Place: \_\_\_\_\_

Dated: \_\_\_\_\_

**For and on behalf of <Purchaser>  
(Name and Designation)**

**For and on behalf of <Supplier>  
(Name and Designation)**

**Attachment 1: Provisions added in the Contract through present Amendment to meet World Bank Requirements**

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(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)

**Fraud and Corruption:** This Procurement is financed by the World Bank (the "Bank"). The Bank requires compliance with the Bank's Anti-Corruption Guidelines and its prevailing sanctions policies and procedures as set forth in the Bank's Sanctions Framework, as set forth in following paragraphs. In further pursuance of this policy, the Contractor/Supplier/Service Provider and its subcontractors and personnel agree to permit the Bank to inspect all accounts, records and other documents relating to bid/proposal submission and contract performance, and to have them audited by auditors appointed by the Bank; and also agree with the following provisions.

### **1. Purpose**

1.1 The Bank's Anti-Corruption Guidelines and this attachment apply with respect to current procurement.

### **2. Requirements**

2.1 The Bank requires that Borrowers (including beneficiaries of Bank financing); bidders, (applicants/proposers), consultants, contractors and suppliers; any sub-contractors, sub-consultants, service providers or suppliers; any agents (whether declared or not); and any of their personnel, observe the highest standard of ethics during the procurement process, selection and contract execution of Bank-financed contracts, and refrain from Fraud and Corruption.

2.2 To this end, the Bank:

- a. Defines, for the purposes of this provision, the terms set forth below as follows:
  - i. "corrupt practice" is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;
  - ii. "fraudulent practice" is any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation;
  - iii. "collusive practice" is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
  - iv. "coercive practice" is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;
  - v. "obstructive practice" is:
    - (a) deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or
    - (b) acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for under paragraph e. below.
- b. Rejects a proposal for award if the Bank determines that the firm or individual recommended for award, any of its personnel, or its agents, or its sub-consultants, sub-contractors, service providers, suppliers and/ or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;
- c. In addition to the legal remedies set out in the relevant Legal Agreement, may take other appropriate actions, including declaring misprocurement, if the Bank determines at any time

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**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)**

*that representatives of the Borrower or of a recipient of any part of the proceeds of the loan engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the procurement process, selection and/or execution of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner at the time they knew of the practices;*

- d. Pursuant to the Bank's Anti- Corruption Guidelines and in accordance with the Bank's prevailing sanctions policies and procedures, may sanction a firm or individual, either indefinitely or for a stated period of time, including by publicly declaring such firm or individual ineligible (i) to be awarded or otherwise benefit from a Bank-financed contract, financially or in any other manner;<sup>1</sup> (ii) to be a nominated<sup>2</sup> sub-contractor, consultant, manufacturer or supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed contract; and (iii) to receive the proceeds of any loan made by the Bank or otherwise to participate further in the preparation or implementation of any Bank-financed project;*
- e. Requires that a clause be included in bidding/request for proposals documents and in contracts financed by a Bank loan, requiring (i) bidders (applicants/proposers), consultants, contractors, and suppliers, and their sub-contractors, sub-consultants, service providers, suppliers, agents personnel, permit the Bank to inspect<sup>3</sup> all accounts, records and other documents relating to the procurement process, selection and/or contract execution, and to have them audited by auditors appointed by the Bank.*

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<sup>1</sup> For the avoidance of doubt, a sanctioned party's ineligibility to be awarded a contract shall include, without limitation, (i) applying for pre-qualification, expressing interest in a consultancy, and bidding, either directly or as a nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider, in respect of such contract, and (ii) entering into an addendum or amendment introducing a material modification to any existing contract.

<sup>2</sup>A nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider (different names are used depending on the particular bidding document) is one which has been: (i) included by the bidder in its pre-qualification application or bid because it brings specific and critical experience and know-how that allow the bidder to meet the qualification requirements for the particular bid; or (ii) appointed by the Borrower.

<sup>3</sup> Inspections in this context usually are investigative (i.e., forensic) in nature. They involve fact-finding activities undertaken by the Bank or persons appointed by the Bank to address specific matters related to investigations/audits, such as evaluating the veracity of an allegation of possible Fraud and Corruption, through the appropriate mechanisms. Such activity includes but is not limited to: accessing and examining a firm's or individual's financial records and information, and making copies thereof as relevant; accessing and examining any other documents, data and information (whether in hard copy or electronic format) deemed relevant for the investigation/audit, and making copies thereof as relevant; interviewing staff and other relevant individuals; performing physical inspections and site visits; and obtaining third party verification of information.

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**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)**

### **Attachment 2: Provisions being added in the Contract through present Amendment to meet AIIB Requirements**

#### **1. Purpose**

*AIIB's Policy on Prohibited Practices and this attachment also applies with respect to current procurement.*

#### **2. Requirements**

*In addition to compliance to provisions listed in Attachment 1 , AIIB also requires compliance to additional aspects of "AIIB's Policy on Prohibited Practices" namely (a) "misuse of resources", which means improper use of the AIIB's resources, carried out either intentionally or through reckless disregard; and (b)"theft" which means the misappropriation of property belonging to another party. In case of occurrence of misuse of resources and theft, AIIB will take remedial actions as per its policy as well as may sanction a firm or individual as per its Sanction Framework.*

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(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)

**Revised Annexure-A-II : Provisions to be added in Bidding/RFP/Tender Documents; as well as in Contract/Agreement format, where bidding/selection process in yet to begin or bidding process ongoing<sup>4</sup>**

### **A) Provisions of the World Bank**

**Fraud and Corruption:** *This Procurement is financed by the World Bank (the "Bank"). The Bank requires compliance with the Bank's Anti-Corruption Guidelines and its prevailing sanctions policies and procedures as set forth in the Bank's Sanctions Framework, as set forth in following paragraphs. In further pursuance of this policy, bidders/contractors shall permit and shall cause their agents (whether declared or not), subcontractors, sub-consultants, service providers, suppliers, and personnel, to permit the Bank to inspect all accounts, records and other documents relating to any initial selection process, prequalification process, bid submission, proposal submission, and contract performance (in the case of award), and to have them audited by auditors appointed by the Bank.*

#### **1. Purpose**

1.1 *The Bank's Anti-Corruption Guidelines and this attachment apply with respect to current procurement.*

#### **2. Requirements**

2.3 *The Bank requires that Borrowers (including beneficiaries of Bank financing); bidders, (applicants/proposers), consultants, contractors and suppliers; any sub-contractors, sub-consultants, service providers or suppliers; any agents (whether declared or not); and any of their personnel, observe the highest standard of ethics during the procurement process, selection and contract execution of Bank-financed contracts, and refrain from Fraud and Corruption.*

2.4 *To this end, the Bank:*

*f. Defines, for the purposes of this provision, the terms set forth below as follows:*

- vi. "corrupt practice" is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party;*
- vii. "fraudulent practice" is any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation;*
- viii. "collusive practice" is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;*
- ix. "coercive practice" is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party;*
- x. "obstructive practice" is:*
  - (c) deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or*
  - (d) acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for under paragraph 2.2 e. below.*

*g. Rejects a proposal for award if the Bank determines that the firm or individual recommended for award, any of its personnel, or its agents, or its sub-consultants, sub-contractors, service*

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*providers, suppliers and/ or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;*

- h. In addition to the legal remedies set out in the relevant Legal Agreement, may take other appropriate actions, including declaring misprocurement, if the Bank determines at any time that representatives of the Borrower or of a recipient of any part of the proceeds of the loan engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the procurement process, selection and/or execution of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner at the time they knew of the practices;*
- i. Pursuant to the Bank's Anti-Corruption Guidelines and in accordance with the Bank's prevailing sanctions policies and procedures, may sanction a firm or individual, either indefinitely or for a stated period of time, including by publicly declaring such firm or individual ineligible (i) to be awarded or otherwise benefit from a Bank-financed contract, financially or in any other manner;<sup>5</sup> (ii) to be a nominated<sup>6</sup> sub-contractor, consultant, manufacturer or supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed contract; and (iii) to receive the proceeds of any loan made by the Bank or otherwise to participate further in the preparation or implementation of any Bank-financed project;*
- j. Requires that a clause be included in bidding/request for proposals documents and in contracts financed by a Bank loan, requiring (i) bidders (applicants/proposers), consultants, contractors, and suppliers, and their sub-contractors, sub-consultants, service providers, suppliers, agents personnel, permit the Bank to inspect<sup>7</sup> all accounts, records and other documents relating to the procurement process, selection and/or contract execution, and to have them audited by auditors appointed by the Bank.*

### **B. Provisions of AIIB**

#### **3. Purpose**

*This Procurement is co-financed by the Asian Infrastructure Investment Bank (AIIB). AIIB's Policy on Prohibited Practices and this attachment also applies with respect to current procurement.*

#### **4. Requirements**

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<sup>2</sup> For the avoidance of doubt, a sanctioned party's ineligibility to be awarded a contract shall include, without limitation, (i) applying for pre-qualification, expressing interest in a consultancy, and bidding, either directly or as a nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider, in respect of such contract, and (ii) entering into an addendum or amendment introducing a material modification to any existing contract.

<sup>3</sup> A nominated sub-contractor, nominated consultant, nominated manufacturer or supplier, or nominated service provider (different names are used depending on the particular bidding document) is one which has been: (i) included by the bidder in its pre-qualification application or bid because it brings specific and critical experience and know-how that allow the bidder to meet the qualification requirements for the particular bid; or (ii) appointed by the Borrower.

<sup>4</sup> Inspections in this context usually are investigative (i.e., forensic) in nature. They involve fact-finding activities undertaken by the Bank or persons appointed by the Bank to address specific matters related to investigations/audits, such as evaluating the veracity of an allegation of possible Fraud and Corruption, through the appropriate mechanisms. Such activity includes but is not limited to: accessing and examining a firm's or individual's financial records and information, and making copies thereof as relevant; accessing and examining any other documents, data and information (whether in hard copy or electronic format) deemed relevant for the investigation/audit, and making copies thereof as relevant; interviewing staff and other relevant individuals; performing physical inspections and site visits; and obtaining third party verification of information.

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**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)**

*In addition to compliance to provisions listed in previous section (Provisions of the World Bank), AIIB also requires compliance to additional aspects of "AIIB's Policy on Prohibited Practices" namely (a) "misuse of resources", which means improper use of the AIIB's resources, carried out either intentionally or through reckless disregard; and (b) "theft" which means the misappropriation of property belonging to another party. In case of occurrence of misuse of resources and theft, AIIB will take remedial actions as per its policy as well as may sanction a firm or individual as per its Sanction Framework.*

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Part(1) dated 23<sup>rd</sup> April, 2020)**

**Revised Annexure-A-III**

List of Procurements done during Period (.....)

| No. | Name of Package | Mode of Tendering (Open / Limited / Single source) | Name of the supplier / contractor | Date of signing of contract / LOA | Value of contract (INR) | Date of completion / scheduled completion of contract | Undertaking to comply with WBand AIIB requirements signed by the supplier/contractor Yes/No |
|-----|-----------------|--|-----------------------------------|-----------------------------------|-------------------------|---|---|
|     |                 |  |                                   |                                   |                         |   |   |
|     |                 |  |                                   |                                   |                         |   |   |
|     |                 |  |                                   |                                   |                         |   |   |
|     |                 |  |                                   |                                   |                         |   |   |
|     |                 |  |                                   |                                   |                         |   |   |



## Annexure A

(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)

### **Revised Annexure-A-IV** **Clauses for Inclusion in Civil Works Contracts**

- *Clauses already part of contract/bidding documents being used need not be duplicated.*
- *The primary/main contractor will be responsible for ensuring these, even if one or more sub-contractors are used for completing the civil works.*
- *The contractor to put in place measures to avoid or minimize the spread of the transmission of COVID-19 and/or any communicable diseases that may be associated with the influx of temporary or permanent contract-related labor.*
- *Any suspect case of COVID19 should be tested as per the national/state guidelines issued by the Health and Family Welfare Ministry/Departments and precautions/protocol to be followed for the infected worker and his/her co-workers.*

|  |   |
|--|---|
| <b>1.</b>  | <b>General Obligations of the Contractor</b>  |
| <ul style="list-style-type: none"><li>▪ To take all necessary precautions to maintain the health and safety of the Contractor's personnel.</li><li>▪ To depute a health and safety officer at site, who will have the authority to issue directives for the purpose of maintaining the health and safety of all personnel authorized to enter and or work on the site and to take protective measures to prevent accidents, including spread of COVID19.</li><li>▪ To ensure, in collaboration with local health authorities, access to medical services, first aid and ambulance services are available for workers/labors, as and when needed.</li></ul>   |   |
| <b>2.</b>  | <b>Labor</b>  |
| <ul style="list-style-type: none"><li>▪ No child labor and/or forced labor at construction site for all works.</li><li>▪ Equal pay/wage for men and women labors.</li><li>▪ Provide health and safety training/orientation on COVID19 to all workers and staff and other employees of the sub-contractor (tips on cough etiquette, hand hygiene and social distancing).</li><li>▪ Prepare a detailed profile of the project work force, key work activities, schedule for carrying out such activities, different durations of contract and rotations, confirmed addresses of the labor and any underlying health conditions that increases the risk of severe infection, to facilitate tracking of workers in case of COVID-19 exposure.</li><li>▪ All laborers to be provided with photo ID cards for accessing the construction site.</li><li>▪ All laborers engaged at construction site to be provided with the required Personal Protection Gear (PPG) – safety helmet and shoes, secured harness when working at heights, electrical gloves, eye protection for welding etc., without which entry to the construction site shall not be allowed.</li><li>▪ In relation to COVID19, adequate hand washing/ sanitization, clean drinking water and sanitation facilities to be provided at construction site.</li><li>▪ All workers/labor to be regularly checked for symptoms before allowing entry to the work site.</li><li>▪ Paid leave to be mandatorily given if labor contacts COVID-19 and/or any other contagious disease while working at the construction site or in the labor camp.</li><li>▪ Steps necessary to prevent labor harassment, including sexual harassment, gender-based violence and any discrimination based on religious, political and/or sexual orientation.</li></ul> |   |
| <b>3.</b>  | <b>Labor Camps (only when labor camps are established)</b>                                    |
| <ul style="list-style-type: none"><li>▪ Contractor to provide hygienic living conditions and safe drinking water.</li><li>▪ Separate toilets for male and females and adequate hand washing/sanitization facilities.</li><li>▪ Small creche and/or play areas for children with helper, when labor is away at work.</li><li>▪ Fireproof wiring and good quality electricals to be used inside the camp.</li><li>▪ Cooking gas and/or electric/induction plate to be provided for each labor household.</li><li>▪ Monthly/weekly health check up to be organized at the camp for all labors/family.</li><li>▪ Organize awareness campaign for social distancing and general health and hygiene.</li></ul>   |   |
| <b>4.</b>  | <b>Involuntary Resettlement Related (Only When Relevant)</b>                                  |
| <ul style="list-style-type: none"><li>▪ No forced eviction of any squatter and/or encroacher at the construction site.</li><li>▪ Such matter to be informed in writing to the concerned authorities and the World Bank for appropriate action as per the environment and social standard (ESS5).</li></ul>   |   |
| <b>5.</b>  | <b>Greenfield/New Constructions – Permits / Environment and Social Management Plan (ESMP)</b> |

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**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-Part(1) dated 23<sup>rd</sup> April, 2020)**

- No use of Asbestos or components/fixtures having asbestos.
- Comply with all applicable national/state permits.
- For greenfield projects involving construction of new buildings and/or adding new floors and/or constructing a new section/wing in an existing building (hospitals, laboratories, isolation wards and quarantine facilities), an ESMP to be prepared by the contractor, as per works specifications.

### **6. Construction Management in Upgrading of Existing Buildings**

- For all contracts involving upgrading of existing buildings (adding rooms, wards, halls, treatment and isolation areas, medication rooms, operation theaters, intensive care units, laboratories etc.), follow the Construction Management Framework prepared for the India COVID-19 Project and included in the project's Environmental and Social Management Framework (ESMF), along with following various guidelines issued by the Government of India, WHO best practices etc.
- Maintain a roster of workers/staff at work site indicating their health condition and symptoms and ensure screening procedures (non-physical temperature measurement) at work sites.
- Depute and assign monitoring and reporting responsibilities on environmental management, health and personnel safety.
- Preventing a worker from an affected area or who has been in contact with an infected person from returning to the site for 14 days or (if that is not possible) isolating such worker for 14 days.
- Place posters and signages at/around the site, with images and text in local languages relating to personal safety, hygiene and on COVID-19 symptoms and guidelines.
- Ensuring handwashing facilities supplied with soap, disposable paper towels and closed waste bins exist at key places throughout site, including at entrances/exits to work areas; where there is a toilet, canteen or food distribution, or provision of drinking water; in worker accommodation; at waste stations; at stores; and in common spaces.
- Segregate lunch hours at worksite of workers to maintain social distancing.
- Designated separate space for storing construction material.
- Securing the construction site with entry only for authorized personnel and disinfecting of the worksite to be undertaken at close of work every day or as may be required.
- Any medical waste produced during the care of ill workers should be collected safely in designated containers or bags and treated and disposed of following relevant requirements (e.g., Biomedical Waste Rules-2018, WHO).

### **7. Grievance Redress Mechanism (GRM)**

- Contractor to establish and widely advertise (within labor camps and at construction site) a GRM. Workers to be informed of their rights for reporting a workplace condition that is not safe or healthy for them and poses imminent risk of contracting COVID-19 without any reprisal/penalty.
- GRM to have provisions for receiving, registering, following up and resolution system for any complaint/grievance received during the construction period.
- A complaints register will always be maintained at the site office and responsibilities allotted to a sufficiently senior official for complaint redress.

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**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-  
Part(1) dated 23<sup>rd</sup> April, 2020)**

**Revised Annexure A-V**



सत्यमेव जयते

Circular No.02-Audit (EAP)/1-2009

भारत के नियंत्रक-महालेखा परीक्षक का कार्यालय

**OFFICE OF THE COMPTROLLER  
AND AUDITOR GENERAL OF INDIA**

दिनांक  
Date

No.167-Audit (EAP)/1-2007

April 28, 2009

To,

All Principal Accountants General/ Accountants General (Audit),  
Directors General (Audit)/ Pr. Director (Audit).

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

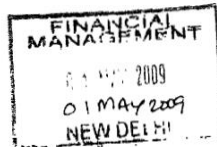
Sir/Madam

The issue of standardization of Terms of Reference (TOR) for audit of the World Bank assisted projects has been under consideration for quite some time. The draft TOR prepared by the World Bank and forwarded by Ministry of Finance (Department of Economic Affairs) was examined in consultation with the World Bank Team. The TOR has been revised to make it more integrated with the existing procedure applicable to audit of Externally Assisted Projects (EAPs).

2. The TOR was approved by C&AG. Ministry of Finance (Department of Economic Affairs) was apprised of this decision under intimation to the World Bank. Ministry of Finance, Department of Economic Affairs have now circulated the standardized TOR to all Ministries, States, UTs, etc. for information and necessary action vide their F. No. 17/7/2006-FB-II dated March 20, 2009. *(copy enclosed)*

3. Therefore, audit certification of all new World Bank assisted projects may be undertaken keeping in view the provisions contained in the standardized TOR. In this context, a copy of DG (Audit)'s D.O. letter dated March 5, 2008, addressed to Ministry of Finance, alongwith a copy of the standardized TOR is enclosed for information and guidance. The points highlighted under para 4 of the D.O. letter dated March 5, 2008 clarify the issues relating to format for Audit certification/Report and requirement of Management Letter.

Encl: As stated.



Yours faithfully,

(B.B. PANDIT)  
Director General (Audit)

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F. No. 17/7/2006-FB.II  
Government of India  
Ministry of Finance  
Department of Economic Affairs

New Delhi, March 20, 2009

Office Memorandum

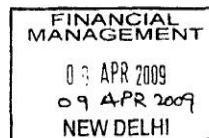
**Subject: Terms of Reference for CAG Audit of World Bank Assisted Projects in India**

The undersigned is directed to enclose herewith 'Terms of Reference' for CAG Audit of all World Bank Assisted Projects in India for information and necessary action.

  
(Soumya Chattopadhyay)  
Under Secretary to the Government of India  
Tel: 2309 3182

1. O/o Comptroller and Auditor General of India, New Delhi
2. All Secretaries of Union Ministries/ Departments
3. All Chief Secretaries of States
4. All Administrators of Union Territories
5. World Bank Office, New Delhi

| CD'S Incoming Mail |               |
|--------------------|---------------|
| Date:              | April 9, 2009 |
| For action         | Manoj Jain    |
| cc:                | R. Bannad     |
| CD's file          |               |



## **Annexure A**

**(Ref: Guidance Note issued vide AS&MD's DO letter no.-Z-18015/19/2020-NHM-II-  
Part(1) dated 23<sup>rd</sup> April, 2020)**

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### **TERMS OF REFERENCE FOR THE AUDIT OF PROJECT FINANCIAL STATEMENTS OF [PROJECT NAME] (For audits conducted by CAG)**

#### **Background**

[Project Aims, Timelines and Objectives]<sup>1</sup>

#### **Objective**

The essence of the World Bank<sup>2</sup> audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank loans were used for the purposes intended,<sup>3</sup> that the annual project financial statements are free from material misstatement, and that the terms of the loan agreement were complied with in all material respects.

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, where applicable, the auditor will express a professional opinion as to whether the Financial Management Reports submitted by project management may be relied upon to support any applications for withdrawal, and whether adequate supporting documentation has been maintained to support claims made by project management for reimbursement of expenditures incurred under the Statement of Expenditure method of reimbursement.

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- [ ] Project Implementation Unit and the participating divisions.

#### **Standards**

The audit will be carried out in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. 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 borrower, the

<sup>1</sup> The background should normally include a detailed description of the project including information on project sources of funding; the purposes for which the funds are intended; and a general description of implementation arrangements, including the organizational structure of all implementing entities.

<sup>2</sup> "World Bank" includes the International Development Agency and the International Bank for Reconstruction and Development. "Loans" includes credits and grants to which the TORs would apply; and "borrower" includes recipients of such loans.

<sup>3</sup> The Bank's charter [Article III Section V(b) of IBRD's Articles of Agreement and Article V Section I(g) of IDA's Articles of Agreement] specify that: "The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations."

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audit should be planned so as to have a reasonable expectation of detecting material misstatements in the project financial statements.

### **Scope<sup>4</sup>**

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 SOEs/ SAs/ or FMRs 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 Government Accounting Standards<sup>5</sup> 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.

### **Project Financial Statements**

The Project Financial Statements should include-

- A. Statement of Sources and Applications of Funds: The contents of Project Financial Statements (PFS) are specific to the sector, the project design and the type of implementing entity. These formats therefore vary from one Project to another. The formats of PFS are prepared in consultation with the implementing entity during the preparation of the Project. See Annexure 1 for an example of a Statement of Sources and Applications of Funds that could be prepared for a project implemented by core government departments.
- B. Reconciliation of Claims to Total Applications of Funds. The PFS include a reconciliation between expenditure reported as per the Statement of Sources and Applications of Funds and expenditure claimed from the World Bank through Statements of Expenditures (SOE), documented claims or report based methods of reimbursement. An example is shown at Annexure 2.
- C. Other Statements or Schedules as may be applicable in particular circumstances and as specified in the relevant legal agreements, such as:
  - A statement showing appropriate major heads of expenditure. (say by Project Component/Sub-components)

<sup>4</sup> In response to identified project risks, the scope may be expanded to include a report or the expression of an opinion on specific aspects of the operation such as internal controls, compliance with Bank procurement policies, or efficiency and effectiveness in the use of loan proceeds.

<sup>5</sup> Until such time as the pronouncements of the Government Accounting Standards Advisory Board are accepted and prescribed by the Ministry of Finance, the accounting standards followed by the Government of India will be defined by the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.



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- A summary of cumulative expenditures by category of expenditure such as buildings, equipment, furniture, vehicles, major rehabilitation of canals etc
- D. 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.

### **Statements of Expenditures and Financial Management Reports**

In addition to the audit of the PFS, the auditor is required to audit all Statements of Expenditures (SOEs) and/or Financial Management Reports (FMRs) 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 by the auditor.

### **Audit Report**

An audit report on the project financial statements should be prepared in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. 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."<sup>6</sup> In addition, the audit opinion paragraph will specify whether, in the auditor's opinion, (a) with respect to SOEs, 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. Relevant CAG Auditing Standards are reproduced in Annexure 5. A sample audit report wordings for unqualified opinion is shown at Annexure 4.

The project financial statements and the audit report should be received by the Bank not later than 6 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.

The audit report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT Legislature.

### **Management Letter**

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.

<sup>6</sup> See relevant portions of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time.

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Where such a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank. Else, a written advice may be made that no management letter was prepared together with the audit report on the project financial statements.

### **General**

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, such as OP/BP 10.02, 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.



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### Annexure 1

Example of a Statement of Sources and Application of Funds  
(projects implemented by core government departments)

Name of the Project

Loan/Credit/Grant No.

Statement of Sources and Applications of Funds

Report for the year ended \_\_\_\_\_

In Rs. '000

| Particulars  | Current<br>Year | Previous<br>Year | Project to<br>date |
|--|-----------------|------------------|--------------------|
| Opening Balance, (if cash balances are<br>controlled by the entity) (A)  |                 |                  |                    |
|  |                 |                  |                    |
| Receipts   |                 |                  |                    |
| Funds received from Government through<br>Budget (These will include external assistance<br>received by Government for the project.) |                 |                  |                    |
| Funds received directly by Project<br>Implementing Authority through external<br>assistance  |                 |                  |                    |
| Beneficiary Contribution (if any)  |                 |                  |                    |
| Total Receipts (B)   |                 |                  |                    |
|  |                 |                  |                    |
| Total Sources (C = A + B)  |                 |                  |                    |
|  |                 |                  |                    |
| Expenditures by Component  |                 |                  |                    |
| A.   |                 |                  |                    |
| B.   |                 |                  |                    |
| C.   |                 |                  |                    |
| Total Expenditures (D)   |                 |                  |                    |
|  |                 |                  |                    |
| Closing Balance, (if cash balances are<br>controlled by the entity) (C-D)  |                 |                  |                    |

Notes:

1. Information about the basis of preparation of the financial statements with regard to the Financial Rules and Codes applicable.
2. The above figures will be based on monthly/quarterly abstract accounts prepared by the accounts compiling offices, duly reconciled by the respective DDOs, with details of unreconciled amounts to be furnished.
3. Names of accounting units whose financial statements are aggregated to prepare the consolidated accounts.
4. Any other project specific Note.

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## **Annexure 2**

### **Sample Reconciliation of Claims to Total Applications of Funds**

Name of the Project \_\_\_\_\_  
Loan / Credit / Grant No. \_\_\_\_\_  
Reconciliation of Claims to Total Applications of Funds  
Report for the year ended \_\_\_\_\_

| Schedules  | Amt (Rs. '000)  |                  |                    |
|--|-----------------|------------------|--------------------|
|  | Current<br>Year | Previous<br>Year | Project<br>to date |
| Bank Funds claimed during the year (A)                     |                 |                  |                    |
|  |                 |                  |                    |
| Total Expenditure made during the year (B)                 |                 |                  |                    |
| Less: Outstanding AC Bills (C)                             |                 |                  |                    |
| Ineligible expenditures (D)                                |                 |                  |                    |
| Expenditures not claimed (E)                               |                 |                  |                    |
| Total Eligible Expenditures Claimed<br>(F)=(B)-(C)-(D)-(E) |                 |                  |                    |
|  |                 |                  |                    |
| World Bank Share @ x% of (F) above (G)                     |                 |                  |                    |

\_\_\_\_\_  
CFAO

\_\_\_\_\_  
Project Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

#### **Notes:**

1. Total expenditure made during the year (B above) must be the same as as the Total Expenditures shown on the Statement of Sources and Applications of Funds (D on the Statement of Sources and Applications of Funds)
2. Outstanding AC Bills (C above) reflect funds drawn against AC bills that have been booked as expenditure but not settled by the end of the year (ie, unsettled advances). The project should show in Schedule II the opening balance of unsettled AC bills, AC bills drawn during the year, AC bills settled during the year, and AC bills unsettled at the end of the year.
3. Expenditures not claimed (E above) may reflect timing differences for eligible expenditures incurred during the year but claimed after the year end.
4. Amounts A and G above must be equal.

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### **Annexure 3**

#### **Example of a Management Assertion Letter<sup>7</sup>**

(Project Letterhead)

(To Auditor)

(Date)

This assertion letter is provided in connection with your audit of the financial statements of the \_\_\_\_\_ Project for the year ended \_\_\_\_\_. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the cash basis of accounting followed by the Government of India, and we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

- The project financial statements are free of material misstatements, including omissions.
- Project funds have been used for the purposes for which they were provided.
- Project expenditures are eligible for financing under the Loan/Credit agreement.
- 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.
- We have made available to you all books of account and supporting documentation relating to the project.
- The project has complied with the conditions of all relevant legal agreements, including the Financing Agreement, the Project Agreement, the Project Appraisal Document, the Minutes of Negotiations; and the Borrower's Project Implementation Plan.

\_\_\_\_\_  
(Senior Executive Officer)

\_\_\_\_\_  
(Senior Financial Officer)

<sup>7</sup> This sample management assertion letter is based on ISA 580, "Management Representations," *Handbook of International Auditing, Assurance and Ethics Pronouncements*, International Federation of Accountants, 2007

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### **Annexure 4**

#### **Sample Audit Report—Unqualified Opinion<sup>8</sup>**

##### **Report of the Comptroller and Auditor General of India**

Addressee<sup>9</sup>

##### **Report on the Project Financial Statements**

We have audited the accompanying financial statements of the \_\_\_\_\_ Project financed under World Bank Loan No. \_\_\_\_\_/IDA, which comprise the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds<sup>10</sup> for the year ended \_\_\_\_\_, These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit examines, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the sources and applications of funds of \_\_\_\_\_ Project for the year ended \_\_\_\_\_ in accordance with Government of India accounting standards.<sup>11</sup>

In addition, in our opinion, (a) with respect to SOEs, 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 this audit report, expenditures are eligible for financing under the Loan/Credit Agreement. During the course of the audit, SOEs/FIIs (each application no. and amount to be indicated) and the connected

<sup>8</sup> See relevant portion of Auditing Standards of the Comptroller and Auditor General of India as applicable from time to time for conditions where unqualified, qualified, adverse or disclaimers of opinion may appropriately be rendered.

<sup>9</sup> The auditor's report should be addressed to the person stipulated in the underlying loan agreement as responsible for providing audited project financial statements.

<sup>10</sup> Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

<sup>11</sup> Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IPSAS, the accounting standards followed by the Government of India shall be the cash basis of accounting applied with due regard to the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes as are in effect and applicable to the operations of the project.

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documents were examined and these can be relied upon to support reimbursement under the Loan/Credit Agreement.

This report is issued without prejudice to CAG's right to incorporate the audit observations in the Report of CAG of India for being laid before Parliament/State or UT Legislature.

[Auditor's Signature]

[Auditor's Address]

[Date<sup>12</sup>]

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<sup>12</sup> The report should be dated as of the date to which the auditor has become aware of and considered the effects of events and transactions. This is generally the final date of fieldwork, as opposed to the date of signing the audit report.

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### Annexure 5

#### Excerpt from CAG Auditing Standards (2<sup>nd</sup> Edition, 2002) Chapter IV, Reporting Standards

##### 11. The form and content of audit opinion and report.

11.1 The form and content of all audit opinions and reports are founded on the following general principles:

- (a) **Title.** The opinion or report should be preceded by a suitable title or heading, helping the reader to distinguish it from statements and information issued by others.
- (b) **Signature and date.** The opinion or report should be properly signed. The inclusion of a date informs the reader that consideration has been given to the effect of events or transactions about which the auditor became aware up to that date (which, in the case of regularity (financial) audits, may be beyond the period of the financial statements).
- (c) **Objectives and scope.** The opinion or report should include reference to the objectives and scope of the audit. This information establishes the purpose and boundaries of the audit.
- (d) **Completeness.** Opinions should be appended to and published with the financial statements to which they relate, but performance reports may be free standing. The auditor's opinions and reports should be presented as prepared by the auditor. In exercising its independence CAG may acquire information from time to time, which in the national interest cannot be freely disclosed. This can affect the completeness of the audit report. In this situation the auditor should consider the need to make a report, possibly including confidential or sensitive material in a separate, unpublished report.
- (e) **Addressee.** The opinion or report should identify those to whom it is addressed, as required by the circumstances of the audit engagement and local regulations or practice. This is unnecessary where formal procedures exist for its delivery.
- (f) **Identification of subject matter.** The opinion or report should identify the financial statements (in the case of regularity (financial) audits) or area (in the case of performance audits) to which it relates. This includes information such as the name of the audited entity, the date and period covered by the financial statements and the subject matter that has been audited.
- (g) **Legal basis.** Audit opinions and reports should identify the legislation or other authority providing for the audit.
- (h) **Compliance with standards.** Audit opinions and reports should indicate the auditing standards or practices followed in conducting the audit, thus providing the reader with an assurance that the audit has been carried out in accordance with generally accepted procedures.
- (i) **Timeliness.** The audit opinion or report should be available promptly to be of greatest use to readers and users, particularly those who have to take necessary action.

11.2 An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its

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meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate 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.

- 11.3 An unqualified opinion is given when the auditor is satisfied in all material respects that:
- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
  - (b) The statements comply with statutory requirements and relevant regulations;
  - (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
  - (d) There is adequate disclosure of all material matters relevant to the financial statements.
- 11.4 **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references that are meant as "emphases of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.
- 11.5 **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
- 11.6 **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction that is so fundamental that an opinion, which is qualified in certain respects, would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
- 11.7 It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.