

# **Punjab Engineering College (Deemed to be University), Chandigarh Technical Education Quality Improvement Programme (TEQIP-III)**

**Subject: Application for Appointment of Statutory Auditor for TEQIP-III Project of Punjab Engineering College (Deemed to be University), Chandigarh.**

The Project ,Third phase of Technical Education Quality Improvement Programme (referred to as TEQIP-III) project is fully integrated with Twelfth Five Year Plan objectives for Technical Education as a key component for improving Quality of TEQIP-III Engineering Education in existing institutions with a special consideration for Low income states and Special Category States and support to strengthen the few affiliated Technical Universities to improve their policy academic and management practices. The Punjab Engineering College (Deemed to be University), Chandigarh has been selected under TEQIP-III under sub component 1.3 twinning arrangements to build capacity and improve performance of Participating Institutes. The MHRD has approved TEQIP-III Project at a cost of Rs.7crore and it was initiated w. e. f July 2017.

The TEQIP-III Project is implemented through Ministry of Human Resources Development (MHRD) of the Government of India as a “**Central Sector Scheme**”(CSS) wherein 100% funding is the Government of India. TEQIP-III Project will have a span of Three years which may further divided into Quarters for reporting as well as for monitoring purpose.

The detailed regarding statutory audit is attached

The bids are called for in 2 (two) parts Expression of Interest (Annexure 1) and Financial Bid (Annexure 2) sealed in 2 (two) separate envelops clearly superscribing “Expression of Interest” and “Financial Bid” on respective envelops. Both the envelops shall be sealed in a 3<sup>rd</sup> separate envelope with complete tender details superscribing tender number & date name & address of the bidder and addressed to Director, Punjab Engineering College (Deemed to be University), Chandigarh may be dropped /submitted on /or before **3:00 P.M.** on **09 July, 2018** at **TEQIP-III Office** Punjab Engineering College (Deemed to be University), Chandigarh. Bids received after due date and time and not confirming to enquiry will not be considered and will be disqualified. The Technical Bid will be opened on at 4:00 P.M on **11 July, 2018**. The Financial Bid of only technically qualified bidders will be opened in the presence of their representatives, if attending bid opening on a specified communicated date and time. The date of opening of Financial Bid will be informed later on.

All bids must be accompanied by a bid security/EMD of Rs.5,000/- (Rupees Five thousand only) in form of Demand Draft / Fixed Deposit Receipt / Bank Guarantee from a commercial bank in fav our of Director, Punjab Engineering College (Deemed to be University), Chandigarh. Bids without EMD will be considered unresponsive and will be rejected. EMD of successful bidder would be returned after completing the process. No interest will be allowed on EMD. The Punjab Engineering College (Deemed to be University), Chandigarh reserves the rights to accept or reject quotations without assigning any reason. The bids shall remain valid for a period not less than 60 days after the last date of bid submission.

# **Punjab Engineering College (Deemed to be University), Chandigarh Technical Education Quality Improvement Programme (TEQIP-III)**

## **TERMS OF REFERENCE FOR STATUTORY AUDITOR**

**Position: Statutory Auditor**

**Organization: Punjab Engineering College (Deemed to be University), Chandigarh**

**Duty Station: TEQIP-III Office**

### **SCOPE:**

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 Credit Agreement, the Project Appraisal Document, the Minutes of Negotiations and the Memorandum of Understanding;
- b) Counterpart funds have been provided and used in accordance with the 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 FMRs. Clear linkages should exist between the books of account and FMRs presented to the Bank;
- d) The project accounts have been prepared in accordance with consistently applied Accounting Standards issued by the ICAI 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) Goods and services financed have been procured in accordance with the relevant credit agreement; and
- f) Review of outstanding previous years audit observations and their compliance.

### **PROJECT FINANCIAL STATEMENTS:**

The Project Financial Statements should include-

- (a) Statement of Sources and Applications of Funds.
- (b) Reconciliation of Claims to Total Applications of Funds. The PFS includes reconciliation between expenditure reported as per the Statement of Sources and Applications of Funds and expenditure claimed from the World Bank through FMR based method of reimbursement.
- (c) Other Statements or Schedules such as:
  - A statement showing appropriate major heads of expenditure by Project Component/Sub-components
  - A summary of cumulative expenditures
- (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.

### **FINANCIAL MONITORING REPORTS:**

In addition to the audit of the PFS, the auditor is required to audit all 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 credit agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. For the fourth quarter disbursement against FMR auditors should review the expenditure position before making the claim and provide reconciliation between the expenditure as per FMRs and as per the PFS for the period under audit examination.

#### **AUDIT REPORT:**

An audit report on the project financial statements should be prepared in accordance with the Engagement and Quality Control Standards promulgated by the Institute of Chartered Accountants of India (ICAI). Those standards require a clear written expression of opinion on the financial statements taken as a whole. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters laid down under the relevant agreement. When a qualified opinion, adverse opinion or disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should State the reasons thereof. In addition, the audit

opinion paragraph will specify whether, in the auditor's opinion, (a) with respect to FMRs, 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 Credit Agreement.

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.

#### **MANAGEMENT LETTER:**

In addition to the audit report on the project financial statements, the auditor will also prepare a management letter highlighting findings during the audit, which will inter alia include:

- I. Comments and observations on the financial management records, systems and controls that were examined during the course of the review;
- II. Deficiencies and areas of weakness in systems and controls and recommendation for their improvement;
- III. Matters that have come to attention during the audit that might have a significant impact on the implementation of the project; and
- IV. Any other matters that the auditor considers pertinent to report in relation to the financial management of the project.

The observations in the Management Letter must be accompanied by a suggested recommendation from the Auditor and Management Comments on the observations/ recommendations from the Management.

#### **PERIOD OF APPOINTMENT:**

The Statutory Auditor would be appointed to conduct audit of the project from July 2017 and cover the Financial Year ending on 31<sup>st</sup> March, 2018. The Contract may be extended to another two years on the basis of performance of the auditor.

#### **GENERAL:**

1. 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 and a copy of Aide Memoires. 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.

2. The Director PEC (Deemed to be University) Chandigarh will be the arbitrator for any dispute and the jurisdiction for the purpose of any dispute shall be Chandigarh.
3. The Director PEC (Deemed to be University) reserves the right to accept or reject the tender without assigning any reason and his decision in all matters concerning the tender shall be final.

**UTILIZATION CERTIFICATE:**

The Auditor is further required to provide a certificate giving details of unspent balance brought forward from the previous financial year, funds released during current financial year indicating sanction numbers and amount, funds utilized and unspent balance at the closing of financial year. The format is attached at Annex.

## MANAGEMENT ASSERTION LETTER

(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 Project, 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 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 Credit Agreement, , the Project Appraisal Document, the Minutes of Negotiations, the Borrower's Project Implementation Plan, and Memorandum of Understanding

---

(Senior Executive Officer)

---

(Senior Financial Officer)

## SAMPLE AUDIT REPORT

### Auditor's Report:

Addressee<sup>5</sup>

### Report on the Project Financial Statements:

We have audited the accompanying financial statements of the \_\_\_\_\_ Project financed under World Bank Credit No. \_\_\_\_, which comprise the Statement of Sources and Applications of Funds and the Reconciliation of Claims to Total Applications of Funds<sup>6</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 Engagement and Quality Control Standards promulgated by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 accounting principles generally accepted in India.

In addition, in our opinion, (a) with respect to FMRs, 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 Credit Agreement. During the course of the audit, FMRs (period and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the Loan/Credit Agreement.

[Auditor's Signature]

[Auditor's Address][Date<sup>7</sup>]

---

<sup>5</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>6</sup> Insert titles of other required statements and schedules included in or annexed to the project financial statements, if any.

<sup>7</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.

## UTILIZATION CERTIFICATE

a) Opening Balance as on 1 <sup>st</sup> April	Rs	_____
b) Funds received from Vide letter No _____ dated _____	Rs	_____
c) Interest earned on grant available for TEQIP only during the year (31 <sup>st</sup> March 200....)	Rs	_____
d) Other Income	Rs	_____
e) Expenditure	Rs	_____
<b>Unspent Balance</b>	<b>Rs.</b>	_____

Certified that a sum of Rs. \_\_\_\_\_ (Rupees \_\_\_\_\_) only was received by \_\_\_\_\_, from State Government as per letter number and date mentioned above.

It is also certified that out of the above-mentioned funds of Rs \_\_\_\_\_ (Rupee \_\_\_\_\_) only, a sum of Rs. \_\_\_\_\_ (Rupees \_\_\_\_\_) only has been utilized by the Institution for the purpose for which it was sanctioned. It is further certified that an unspent balance of Rs. \_\_\_\_\_ (Rupee \_\_\_\_\_) only is being carried forward for utilization in the next year.

We further certify that the conditions on which the grant was sanctioned have been fulfilled and where there have been any deviation from the sanctioned amount it is with prior approval of the concerned authority. We have exercised reasonable checks to see that money has been actually utilized for the purpose for which it was sanctioned.

**(Name and Address of Chartered Accountants Firm)**

**Seal of Chartered Accountants Firm**

**Date:** \_\_\_\_\_  
**Place:** \_\_\_\_\_

**Signature**

## Selection Criteria for Audit of Financial Statements are as under:

### 1. Appointment of Auditors

The auditors will be appointed in accordance with the guidelines for procurement of consultants as contained in the Procurement Manual of the Project. The process of appointment should be completed before the commencement of the FY for which the audit is to be done. The auditors may be appointed initially for a period of two year and then for another year, subject to annual performance review. This will ensure continuity and the auditors will be able to assess the progress over time. However, in case of re-appointment of the same auditor –

- ensure compliance with the Procurement Guidelines of the Manual; and
- re-confirm that the audit firm continues to satisfy the eligibility criteria as prescribed in the ToR.

### 2. Eligibility Criteria:

- I. The firm must be empaneled with C & AG, without which the application of the firm would not be considered.
- II. Firms must qualify following minimum criteria:

Sl. No.	Particulars*	Minimum Criteria
1.	Number of Full Time Partners associated with the firm for not less than 3 years with at least one being a Fellow CA (As per Certificate of ICAI as on 1.1.2009)	4
2.	Turnover of the firm (Average annual in last three financial yrs.)	Minimum Rs.25 Lakhs
3.	No. of Years of Firm Existence	5 Yrs.
4.	No. of assignments of Statutory Audit of Corporate/PSUs entities except Bank Branch Audit having a turnover of not less than Rs 25 crores in the last 3 years.	4
5.	No. of assignments: Experience of audit of Externally Aided Projects/ Social Sector Projects (other than Audit of Charitable Institutions & NGOs) in the last 3 years	4

- a) Any firm not qualifying these minimum criteria need not apply as their proposal shall be summarily rejected.
- b) **Supporting Documents for Eligibility Criteria:** Following supporting documents must be submitted by the firm along with the technical proposal:
  - i. For S. No. 1 above, the firm must submit an attested copy of Certificate of ICAI.
  - ii. For S. No. 2, the firm must submit, a copy of the balance sheet for the last three years.
  - iii. For S. No. 4 & 5, the firm must submit a copy of the appointment letters from the auditee organizations. Branch Audit of any Bank shall not be considered while taking into account the total number of assignments.
- III. The firm or any partners of the firm should not be black listed by any PSUs or Govt. Co. or any other organization in respect of any assignment or behavior. [Self attested affidavit on Rs.100/- stamp paper to be given in this regard by the authorized person of the firm].



## EVALUATION CRITERIA FOR SELECTION OF AUDITOR

### Evaluation Criteria: Expression of Interest (EOI)

The Evaluation Criteria for selecting the auditor are mentioned below:

<i>S.No.</i>	<i>Evaluation Criteria</i>	<i>Maximum Marks</i>
1	Number of Partners (2 marks up to 3 partners,1 for each additional partner)	10
2	Presence of the Firm in Project State	10
3	Number of Professionally Qualified Staff Between 10-25 staff-(5 marks) More than 25 Staff-(10 marks)	10
4	Turnover for the last five years More than 50 lacs and up to 75 Lacs-2 marks for each year More than 75 Lacs-4 marks for each year	20
5	Number of Audit and similar assignments undertaken during last 5 years (5 marks for each assignment, maximum three)	15
6	Number of World Bank Project Audits** undertaken during the last 5 years (5 marks for each assignment, maximum seven assignments)	35
	<b>Total Marks</b>	<b>100</b>

\* The audit firms must be empaneled with the C&AG and eligible for major audits

\*\* World Bank audits means any audit conducted by the firm for World Bank clients, and includes both external audit and internal audit.

### Criteria for Selection of Auditors – Request for Proposal (RFP)

The Evaluation Criteria for selecting the auditor are mentioned below:

<b>S. No.</b>	<b>Evaluation Criteria</b>	<b>Maximum Marks</b>
1	Number of External Audit / similar assignments undertaken during last 5 years (5 marks for each assignment, maximum of 4 assignment)	20
2	Number of World Bank project Audits*** undertaken during the last 5 years (5 marks for each assignment, maximum six assignments)	30
3	Based On Team proposed	
	> Partner	15
	> Audit Manager	15
	> Audit Staff	20
	<b>Total Marks</b>	<b>100</b>
	The individuals shall be rated on the following sub-criteria, as relevant to the task:	
	<u>General qualifications</u> : general education and training, length of experience, positions held, time with the firm as staff, experience in developing countries, and so forth;	20%
	<u>Adequacy for the assignment</u> : education, training, and experience in the specific sector, field, subject, and so forth, relevant to the particular assignment; and	50%
	Experience of working on World Bank projects	15%
	Experience of working with Government departments/similar projects	15%

\* The audit firms must be empaneled with the C&AG and eligible for major audits.

## **Punjab Engineering College (Deemed to be University), Chandigarh Technical Education Quality Improvement Programme (TEQIP-III)**

### **Invitation for Expression of Interest (EOI) for Appointment of Statutory Auditors**

The interested Chartered Accountant Firms are requested to furnish the below details of your firm in the Expression of Interest (Annexure-1) and Financial Bid (in Annexure-2) and placed in 2 (two) separate envelops clearly superscribing "Expression of Interest" and "Financial Bid" on respective envelops. Both the envelops shall be sealed in a 3rd separate envelope with complete tender details superscribing tender number & date name & address of the bidder and addressed to Director, Punjab Engineering College (Deemed to be University), Chandigarh may be dropped /submitted on /or before **3:00 P.M.** on **09 July, 2018** at **TEQIP-III Office** Punjab Engineering College (Deemed to be University), Chandigarh. Bids received after due date and time and not confirming to enquiry will not be considered and will be disqualified. The Technical Bid will be opened on at 4:00 P.M on **11 July, 2018**.

S. No	Particulars	Minimum criteria
1	Number of Full Time Partners associated with the firm for not less than 3 years with at least one being a Fellow CA (As per certificate of ICAI as on 01.01.2009)	4
2	Turnover of the firm (Average annual in last three financial years)	Minimum Rs.25 Lakhs
3	No. of Years of Firm Existence	5 Yrs
4	No. of assignments of Statutory Audit of Corporate/PSUs entities except Bank Branch Audit having a turnover of not less than Rs. 25 crores in the last 3 years	4
5	No. of assignments: Experience of Statutory audit of Externally Aided Projects/ Social Sector Projects (other than Audit of Charitable Institutions & NGOs) in the last 3 years	4

- a) Any firm not qualifying these minimum criteria need not apply as their proposal shall be summarily rejected.
- b) **Supporting Documents for Eligibility Criteria:** Following supporting documents must be submitted by the firm along with the technical proposal:
- i. For S. No. 1 above, the firm must submit an attested copy of Certificate of ICAI.
  - ii. For S. No. 2, the firm must submit, a copy of the balance sheet for the last three years.
  - iii. For S. No. 4 & 5, the firm must submit a copy of the appointment letters from the auditee organizations. Branch Audit of any Bank shall not be considered while taking into account the total number of assignments.
- c) The firm or any partners of the firm should not be black listed by any PSUs or Govt. Co. or any other organization in respect of any assignment or behavior. [Self attested affidavit on Rs. 100/- stamp paper to be given in this regard by the authorized person of the firm].

## Evaluation Criteria: Expression of Interest (EOI)

S. No	Particulars	Minimum criteria	Fulfilling Eligibility (Firm Details)
1	Name, Postal Address, Contact No. Mobile No. & E-mail id of Auditing Firm		
2	Is the firm empanelled with C&AG : If yes, copy attached		
3	Number of Full Time Partners associated with the firm for not less than 3 years with at least one being a Fellow CA (As per certificate of ICAI as on 01.01.2009)	4	
4	Number of Professionally Qualified Staff		
	Between 10-25 staff (5 marks)		
	More than 25 staff (10 marks)		
5	Turnover of the firm (Average annual in last three financial years i.e. 2015-16, 2016-17 & 2017-18)	Minimum Rs.25 Lakhs	
6	No. of Years of Firm Existence	5 Yrs	
7	No. of assignments of Statutory Audit of Corporate/PSUs entities except Bank Branch Audit having a turnover of not less than Rs. 25 crores in the last 3 years	4	
8	No. of assignments: Experience of Statutory audit of Externally Aided Projects/ Social Sector Projects (other than Audit of Charitable Institutions & NGOs) in the last 3 years	4	
9	Number of Audit and similar assignments undertaken during last 5 years (5 marks for each assignment, maximum three)		
10	Number of World Bank Project Audits** undertaken during the last 5 years (5 marks for each assignment, maximum seven assignments)		

\* The audit firms must be empanelled with the C&AG and eligible for major audits

\*\* World Bank audits means any audit conducted by the firm for World Bank clients, and includes both external audit and internal audit.

**Annexure 2**

**Financial Bid filled up and submitted in Envelope 2 must be duly sealed superscript with name of the tender. Any conditions given in the Financial Bid may cause rejection of the Bid**

<b>Particular</b>	<b>Amount (Rs.)</b>
Fee for audit	
ADD: GST as per applicable rate of service provided	
Total Fees	

Place:

Date:

(Authorized Signatory)

### **Terms & Conditions for submission and evaluation of bids:**

1. The bidder firm should submit his bids physically under two bid system i.e. Expression of Interest (Annexure-1) and Financial Bid (in Annexure-2) and placed in 2 (two) separate envelopes clearly superscribing "Expression of Interest" and "Financial Bid" on respective envelopes. Both the envelopes shall be sealed in a 3rd separate envelope with complete tender details superscribing tender number & date name & address of the bidder and addressed to Director, Punjab Engineering College (Deemed to be University), Chandigarh may be dropped /submitted on /or before **3:00 P.M.** on **09 July, 2018** at **TEQIP-III Office** Punjab Engineering College (Deemed to be University), Chandigarh. Bids received after due date and time and not confirming to enquiry will not be considered and will be disqualified. The Technical Bid will be opened on at 4:00 P.M on **11 July, 2018**.
2. All bids must be accompanied by a bid security/EMD of Rs.5,000/- (Rupees Five thousand only) in form of Demand Draft / Fixed Deposit Receipt / Bank Guarantee from a commercial bank in favour of Director, Punjab Engineering College (Deemed to be University), Chandigarh. Bids without EMD will be considered unresponsive and will be rejected.
3. EMD of successful bidder would be returned after completing the process.
4. No interest will be allowed on EMD.
5. Any effort by a bidder or bidder's agent, whosoever described to influence the department in any way concerning scrutiny / consideration / evaluation / comparison of the bid or decision concerning award of contract shall entail rejection of the bid.
6. The conditional bids shall not be considered and likely to be rejected in very first instance.
7. The envelope containing Expression of Interest shall be opened first on the scheduled date and time at the **TEQIP-III Office** in the presence of the representatives of the firm if any, who wish to present on the spot at that time. The Tender Evaluation Committee will evaluate the bids technically.
8. The Financial Bid of only technically qualified bidders will be opened in the presence of their representatives, if attending bid opening on a specified communicated date and time. The date of opening of Financial Bid will be informed later on. The Financial evaluation will be done on the basis of lowest quotes. The bidder whose quote is lowest will be declared as L1.
9. The bids shall remain valid for a period not less than 60 days after the last date of bid submission.
10. The firms who have been blacklisted by any Central/State Government Department/Authority/Agency/Board/Corporation need not apply.
11. The bidder who has been selected for internal audit will not be eligible for statutory audit.
12. All the disputes will be subject to Chandigarh Jurisdiction.
13. Each page must be signed by the authorized person.
14. The Director, Punjab Engineering College (Deemed to be University), Chandigarh reserves the rights to accept or reject quotations without assigning any reason.

# Punjab Engineering College (Deemed to be University), Chandigarh Technical Education Quality Improvement Programme (TEQIP-III)

## SPECIFIC INSTRUCTIONS FOR STATUTORY AUDIT OF FINANCIAL STATEMENTS

### 1. Coverage by Auditors

To ensure timely completion of audit, auditors should visit each project implementing agency (Institution/SPIU/NPIU) twice a year and, in total, review at least 50% of transactions by value.

### 2. Audit Observations

- a. **Classification of audit observations:** For each of the audit observations, the auditor should classify it either as a Major or a Minor observation. To arrive at the classification, both the amount (quantity) and nature (quality) of misstatements need to be considered.
- b. **Quantification of audit observations:** To the best extent possible, the auditor should quantify the impact of the misstatement, so that implication of the findings can be assessed.
- c. Observations should be as **specific** as possible.
- d. **Management Response:** Management must submit a response to the audit observations listed in the audit report.

### 3. Presentation of Financial Statements

- a. Expenditure in Project Financial Statements may be grouped as per reporting heads in the Financial Monitoring Reports (to the extent feasible). This will facilitate reconciliation with the FMRs.
- b. Accounting Policies should clearly indicate, inter alia, the basis of recognition of expenditure for various activities i.e. basis and timing of expenditure recognition and nature of documents received to liquidate the advance and record expenditure e.g., Utilization Certificate, Statement of Expenditures or actual vouchers/bills etc.
- c. The audit report shall contain an audited FMR for the last quarter (quarter ending March 200...., showing cumulative and head wise expenditure for the complete financial year) along with the Audited Statement of Accounts. Further, it should include a reconciliation between these two statements.