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Internal Audit and Pre-funding Assessment for Projects in India

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Fellow Member of the Institute of Chartered Accountants of India (ICAI)

Body set up by Government of India by an Act of Parliament in 1949 (**Act No. XXXVIII of 1949**)

14th October, 2023

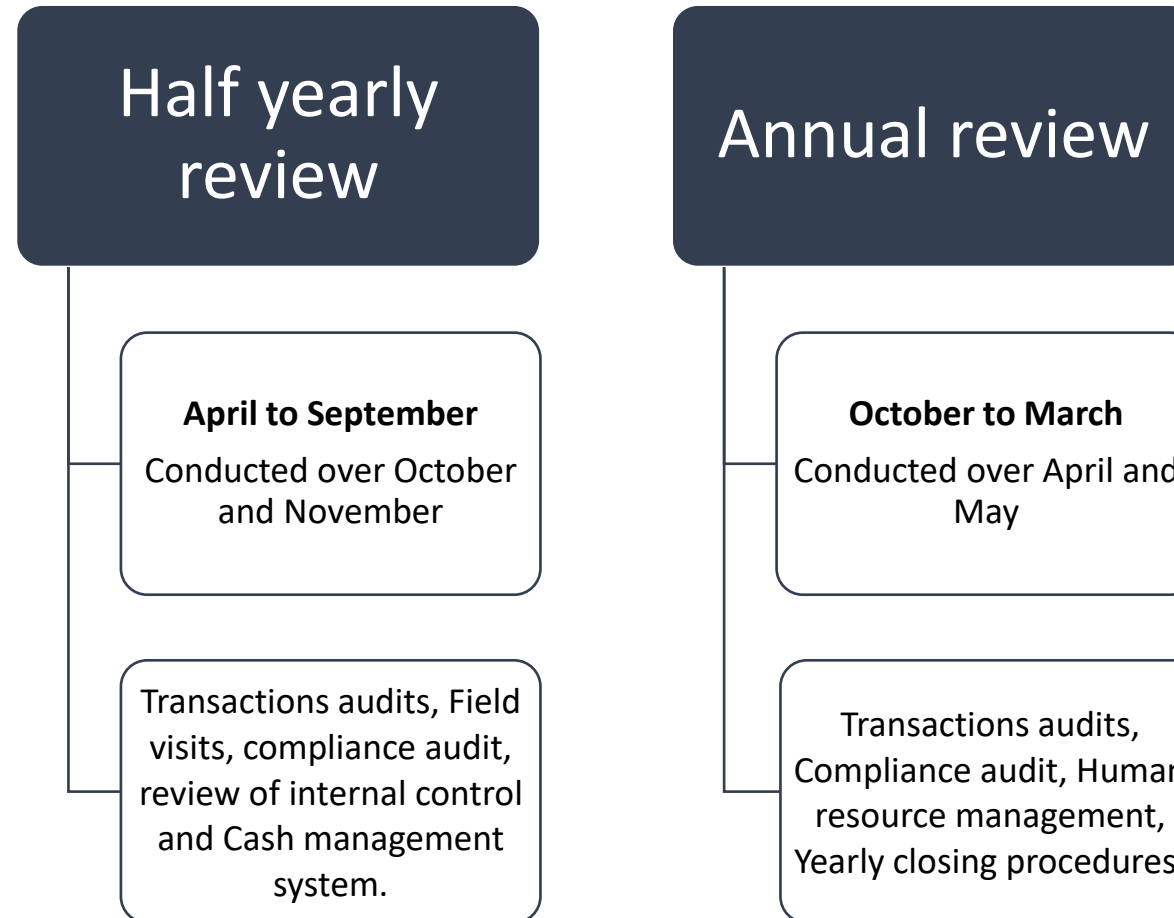


Review Audits – Key Objectives

1. Assessing and developing internal control and accounting systems of partner organisations
2. Advising and implementation of best practices of the above
3. Compliances with Government regulations and policies, legal and Human Resource
4. Financial and legal coordination between partner organisations and Indienhilfe e.V Herrsching
5. Transactions audit – utilization, detection of fraud and malpractices, double funding

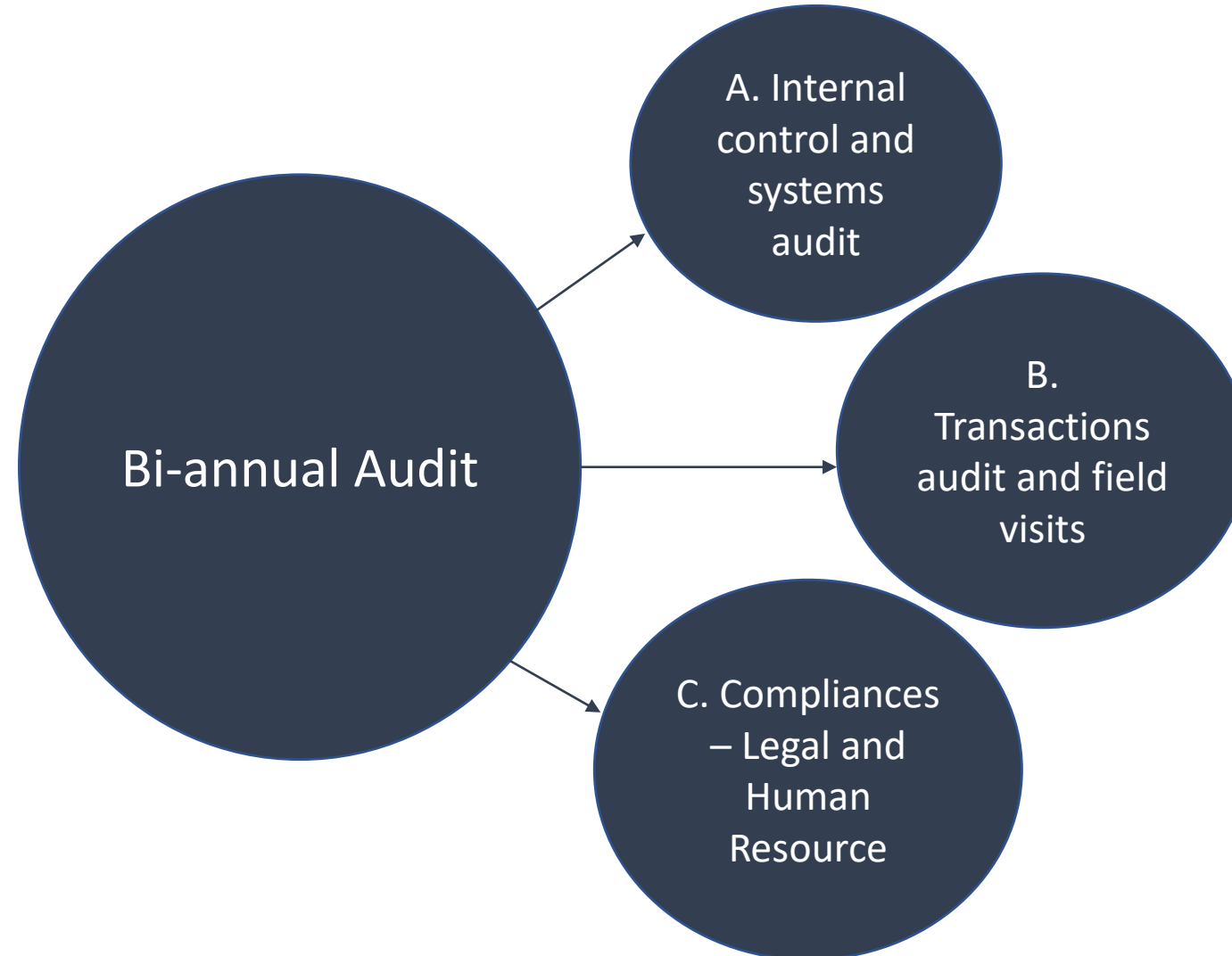


Bi-annual Audits – Overview





Bi-annual Audit – Components





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A Internal Control and Systems Audit

- Assessing structure of the project in terms of manpower competence
- Assessing duties and responsibilities assigned at different levels of staff
- Assessing internal control mechanisms, checks and balances including cash management for project activities
- Assessing the role and intervention of the management in the project
- Holding meetings with the management of the organisation regarding audit observations
- Assessing areas of risk – financial, legal or otherwise
- Purchase Policy, HR Policy, Finance Manual



Meeting with staff and management, Inspiration, 2020



Meeting with staff and management, Sanchar



Meeting with field staff, DMSC



B Transactions Audit and Field Visits

- Setting up of reporting system linking expense vouchers to field level activities
- Accounting principles and conventions
- Activity based reports
- Voucher verification, adequacy of supporting documents giving details
- Assessing areas of possible leakages and conducting inquiry
- Scrutiny of bank statements and cash books
- Asset verification
- Salary Calculation and Payments, Administrative systems, Leave policy
- Field level papers, registers, inquiry, external confirmations, work reports with expenses, meetings with beneficiaries, SHG, household level (including Covid-19 relief)
- Local contribution
- Overlaps (if any) with other projects or unrelated activities – financial or geographical or resource time utilised



Activity based verification, DMSC



Expenditure audit, KJKS



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Photographs from field visits



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Education Centre, SKC



Stock verification, DMSC



Nutrition garden with beneficiary, KJKS



SHG meeting, DMSC



MCWC Creche, KtfHD



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C Compliances – Legal and Human Resource

Legal

- Constitutional
- Statutory audit
- FCRA
- Income Tax
- Professional Tax

Human Resource

- Provident Fund
- Health Insurance

Operational

- Vehicle Insurance – Licenses
- Rent agreements
- Programme level - specific activities covered under any specific law, best practices Example - piggery guidelines by Animal husbandry dept)



Studying the statutory audit report and expenditure verification, DMSC



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Constitution

- West Bengal Societies Registration Act, 1961; Indian Trusts Act, 1882
- Memorandum of Association, Articles of Association, Bye-Laws
- Governing body elections - rules
- Board members - office bearers
- Annual Return
- Audited Accounts



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Foreign Contribution (Regulation) Act, 2010 (FCRA)

- Act in 1976 to monitor/control flow of funds from foreign sources
- Crucial Amendments in 2010 and 2020
- Prior Permission & Registration (5 years – with defined purpose)
- Foreign Contribution meaning as per Section 2(h)
- Administering funds - Sources, Utilisation (types of expenditure – 20% administrative expenses limit), bank accounts, annual returns
- Key functionaries, changes thereof, responsible persons for accountability
- Journalists, Public Servants, Foreigners (without special approval) prohibited



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Income Tax Act 1961 – Key Amendments

- Registration/Approval for income tax exemption of organisations – Section 12A (now Section 12AB). Mandatory utilisation of 85% of funds for charitable purpose as defined in Section 2(15)
- Tax exemption for donors – Section 80G
- Annual Income Tax Returns with figures in compliance with norms as above
- Report in form 10B stating compensation paid to key management personnel for the financial year
- Actual payments allowable. Provisions not allowed.



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Human Resource

- Minimum Wages Act, 1948 - specifying minimum wages and compliance
- Provident Fund - Registration under Employees Provident Fund & Miscellaneous Provisions Act, 1957 (EPF Act) for organisations employing 20 persons and above
- Current rules 12% of Salary as employee's contribution together with 13% of Salary as employer's contribution depositor with the EPF authorities (employees provident fund organisation - government body)
- Employer's contribution divided into pension scheme and life insurance
- Salary means Basic Salary plus Dearness Allowance (DA)
- IH norms for provident fund to all staff. Public Provident Fund scheme (government scheme) for smaller donee organisations who are not required to be registered under the EPF Act (Employees Provident Fund & Miscellaneous Provisions Act, 1957). 12% each of total salary as employee and employer's contribution paid into the Public Provident Fund (PPF) scheme of government of India.



Health Insurance

- Provided under the Employees State Insurance Act, 1948 (ESI Act) - state insurance scheme for registered organisations. Requirement of law – organisation employing 10 staff members
- Maximum employee salary INR. 21000 per month (INR. 25000 per month for persons with disabilities)
- 3.25% of gross salary – employer contribution
- 0.75% of gross salary - employee contribution - both paid on a monthly basis
- Medical benefit for employees and family members covered at state ESI hospitals - no upper limit, includes referral to private hospitals in required cases - direct payment to private hospitals
- Maternity benefit, sickness benefit, disablement benefit, dependent benefit, funeral expenses, unemployment benefits
- Health insurance policies to staff (coverage of INR. 50.000 to 100.000) provided by IH under IH HR norms. Insurer - government owned insurance company



Photographs of home visits for external confirmation



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Covid-19 relief confirmation, DMSC



Validating therapy visits by staff, Sanchar



Validating regular community visits, DMSC



Closure Review

- Proper documentation of terms of closure and indemnification
- Verifying that all stakeholders are legally and financially not compromised
- Making available scope for using assets created out of the project after closure
- Verifying available fund balances and for further use by IH



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Reporting

- Audit reports – observations, inferences and recommendations
- Drafting reports as per ICAI guidelines in-keeping with the comprehensibility of partner organisations
- Follow-up of recommendations in subsequent reviews
- Annexures, including IH prescribed formats, customized for partners respectively
- Conversion of physical documents to e-copies for accessibility and sharing as per IH checklist
- Submission of physical copies of reports and documents, one set, to IH Kolkata
- Courier physical copies of report and all documents to IH Herrsching

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CA
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Chartered Accountant

Address: D-11, Greenwing
Lal Bahadur Shastri
Lal Bahadur, 2D
Kirti Vihar, New Delhi
110017

Date: 18.03.2021

To: **Apurva Sharma of ICAI, 100, Park Road, New Delhi**

In terms of the 7th July and 22.03.2020 we have carried out the audit of your representation on your representation account for the above-mentioned period.

Method of Audit: The audit was conducted for the period 01.04.2020 to 31.03.2021.
The audit was conducted on the basis of the following documents:
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Details of the audit findings are given below:

Observations: **Non-Compliance**

- The company is a private company registered under the Companies Act, 2013. However, it is not a company as per the provisions of the Companies Act, 2013. It is a partnership firm. The company is not a company as per the provisions of the Companies Act, 2013. It is a partnership firm. The company is not a company as per the provisions of the Companies Act, 2013. It is a partnership firm.
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Pre-funding Assessment and Due Diligence

Objective

To verify legal, financial and operational (limited to systems and internal control) credentials and risk analysis thereto of a prospective project partner considering the deliverables for a specific project (to the extent available)

Reporting & Advice

- Opinion on suitability (including areas of risk) of a proposed project to be funded by IH from a legal, structural, financial and operational systems perspective for a prospective project partner.
- Advise on structural and operational matters while setting up a new project with a partner post selection

Tasks

- Legal compliances – Constitutional, Tax, FCRA, others
- Human Resource compliances – Labour Laws, Internal Human Resource policies
- Assessing organisation structure and size
- Studying financial statements for 3 previous years – emphasis on sources of funding and expenditure pattern, quantum and analysis thereof
- Brief assessment of existing accounting and internal control systems
- Brief assessment of existing project level structure and field level operations
- Brief assessment of overall suitability considering projects undertaken in the past with emphasis on 3 previous years



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Development Sector Specific Workshops Attended

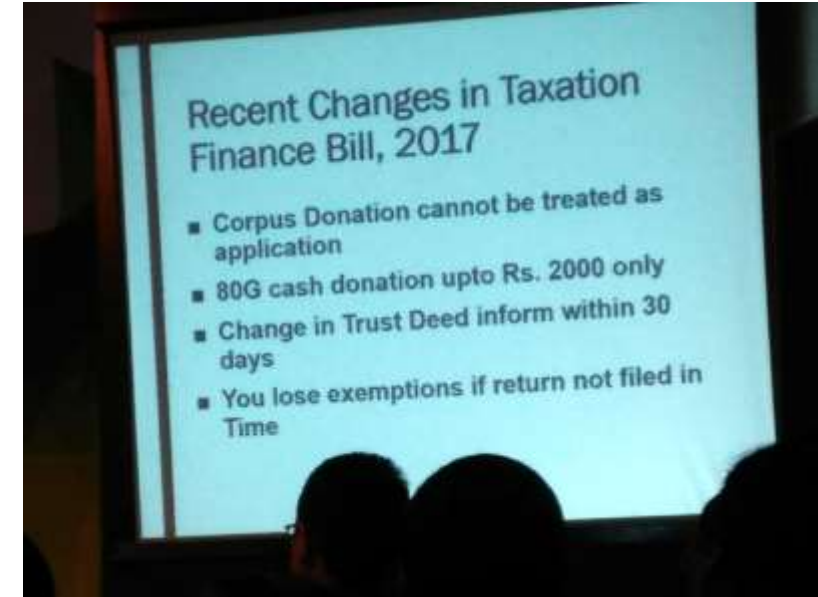
- BMZ (German Government) Workshop for Financial Administration & Risk Management, held in KKID, Coimbatore - 2017 & 2019
- FMSF Workshop - National Consultation on Regulatory Laws & Compliances in NPOs – 2017
- FMSF Workshops – 3 nos. FCRA Amendments 2020
- Workshops conducted by Insitute of Chartered Accountants of India from time to time



KKID, Coimbatore



FMSF, New Delhi



FMSF, New Delhi



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Working with IH Consultants in India

- Coordination regarding audit observations – including real time budget/expenditure related issues and clarifications
- Meetings on issues for time to time regarding project implementation and feedback including changes in legal framework
- Conducting trainings for partner organisations from time to time on accounting formats, legal changes
- Joint visits to partner organisations for audit as well as prefunding assessment
- Expenditure verification of IH consultants



Advisor to IH

- Advice on legal compliances (constitutional, taxation, FCRA)
- Reporting formats and scheduling
- Advising on project agreements and others
- Communicating new areas of impact due to changes in emerging situations
- Field level procedures (financial or otherwise)



Impact of Work in a Nutshell

- Compliances with Legal, Taxation and HR norms, saving partner organisations penalties imposed by authorities
- Assessment of Internal Control and Accounting Systems and practices resulting in transparency, effective fund utilization, work efficiency and time utilization of staff, prevention and detection of fraud and misrepresentation
- Assessment of fund utilisation for programme expenditure as per designated plans and objectives
- Receipt of due compensation to staff and other accruing employee benefits as per Labour Laws and IH Human Resource policy
- Field based work management and accounting systems in order to establish a bottom up approach, making field level requirements the priority
- Legal safeguarding and indemnification in cases of closure of projects, staff dues and rights
- Information dissemination and advice to IH and Partner organisations on frequent changes in legal framework
- Selection of suitable partner organisation from a legal, structural and accounting point of view
- Development and improvement of systems and processes with best practices over time along with use of new technologies and methods in line with accounting and management principles



A positive glimpse from the field



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Motivation Centre, SKC





Web-links for Reference

- Constitution - <http://www.bareactslive.com/WB/WB048.HTM>
<http://www.bareactslive.com/WB/WB049.HTM#0>
- Foreign Contribution Regulation Act, 2010 - <https://fcraonline.nic.in/home/index.aspx>
- Provident Fund - https://www.epfindia.gov.in/site_en/index.php
http://www.nsiindia.gov.in/InternalPage.aspx?Id_Pk=55
- Health Insurance - <http://esiwb.gov.in/main/>
- Income Tax - <https://www.incometaxindia.gov.in/Pages/i-am/trust.aspx?k=Exemptions>
<https://cleartax.in/s/charitable-trusts-ngo-income-tax-benefits>



Abbreviations

- DA – Dearness Allowance
- EPF – Employees Provident Fund
- ESI – Employees State Insurance
- FCRA – Foreign Contribution (Regulation) Act, 2010
- HR – Human Resource
- ICAI – Institute of Chartered Accountants of India
- IH – Indienhilfe e.V Herrsching
- KKID – Karl Kubel Institute for Development
- NGO – Non-Government Organisation
- NPO – Non-Profit Organisation
- PPF – Public Provident Fund



Danke Schön!