



Department of Tourism,
Government of Uttar Pradesh

Uttar Pradesh

Pro-poor Tourism Development Project

Project Financial Management Manual

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Preface

This Project Financial Management Manual (PFFM) for the Uttar Pradesh Pro-poor Tourism Development Project (the Project) describes the procedures to be followed by various Project agencies in the course of Project accounting, financial management and audit, as well as all disclosure and reporting requirements.

The procedures described in this Manual are based on the requirements of the applicable legislation governing the Project and various guidelines issued by the World Bank for projects financed by the Bank. This Manual complements and must be used along with the Project Operational Manual and the Project Procurement Manual.

This Manual guides officials at the Department of Tourism, GouP, the State Project Coordination Unit, the Implementing Entities, the Technical Support Units and any other concerned agency or individual in performing their accounting and financial management functions under the Project.

It complements and must be used along with the Project Operational Manual and the Project Procurement Manual.

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Abbreviations

ACPD	Additional Chief Project Director
CAAA	Controller of Aid, Accounts and Audit
CAG	Comptroller and Auditor General of India
CoA	Chart of Accounts
CPD	Chief Project Director
DoF	Department of Forests, GoUP
DoT	Department of Tourism, GoUP
EC	Empowered Committee
EMD	Earnest Money Deposit
EOI	Expression of Interest
FC	Finance Controller
FM	Financial Management
FMS	Financial Management Specialist
GoI	Government of India
GoUP	Government of Uttar Pradesh
GST	Goods and Services Tax
IA	Implementing Agency
IE	Implementing Entity(ies)
IFR	Interim Financial Reporting
KSDA	Kushinagar Special Area Development Authority
MVDA	Mathura Vrindavan Development Authority
PAD	Project Appraisal Document
PAN	Permanent Account Number
PD	Project Director
PFM	Project Financial Management Manual
PFS	Project Financial Statements
POM	Project Operational Manual
PPM	Project Procurement Manual
SC	Steering Committee
SOE	Statement of Expenditure
SPCU	State Project Coordination Unit
TDS	Tax Deducted at Source
TOR	Terms of Reference
TSU	Technical Support Unit
UP	Uttar Pradesh
UPPPTDP	Uttar Pradesh Pro-Poor Tourism Development Project
VAT	Value Added Tax
GST	Goods and Services Tax
VDA	Varanasi Development Authority
WB	World Bank

1. Introduction

1.1 About this Manual

This **Project Financial Management Manual (PFM)** for the **Uttar Pradesh Pro-Poor Tourism Development Project – UPPPTDP (the Project)** guides all Project functionaries, including the State Project Coordination Unit (SPCU), the implementing entities (IE) and concerned government agencies with regard to financial management and accounting under the Project. It focuses on Project aspects such as funds flow, financial arrangements, Project planning and budgeting, Project accounting and reporting, and audit and disclosures.

This Manual aims to support the process of establishing and maintaining financial discipline in implementing the Project. It also covers the procedures for ensuring necessary accountability and transparency.

This Manual is part of and complements a set of manuals prepared to guide the Project implementation, which also includes the **Project Operational Manual (POM)** and the **Project Procurement Manual (PPM)**. Specific aspects relating to Project implementation in general and procurement in particular, discussed briefly in this Manual, are covered in greater detail in the POM and the PPM.

Project implementation is the primary responsibility of the Department of Tourism (DoT), Government of Uttar Pradesh (GoUP) and the implementing entities (IE); hence, this Manual has been prepared in line with financial management procedures as applicable to the GoUP, and the World Bank (the Bank) Guidelines in this regard. The Manual is based on the prevailing system of accounting at the DoT as well as at the implementing entities.

1.2 Adoption and Amendment

This Manual becomes effective from the time it was reviewed and approved by the World Bank, dated November 11, 2015.

As the Project implementation progresses, circumstances may arise requiring changes to certain sections of this Manual. Minor changes may be carried with the approval of the Chief Project Director (CPD) or his/her designee. Major proposed modifications will be placed before the Steering Committee (SC) by the CPD or his/her designee using **Form 1 – Format for proposing changes to manuals** (see Annex 2 of the POM). All modifications will be made after obtaining prior written consent from the Bank.

The current updated version has been reviewed and approved by the World Bank, dated September 25, 2017.

1.3 General Principles of Financial Management

A Project financial management system provides timely, reliable, and useful information for accountability and decision-making. Further, accounting and auditing are essential

elements and tools for good Project governance, and for achieving the Project Development Objective.

Project financial management principles guide and contribute to ensure that Project funds are used for the intended purposes, complete and correct recording of financial transactions, and reporting for decision-making. This Manual provides the processes for achieving these principles.

1.4 Project Overview

The Uttar Pradesh Pro-Poor Tourism Development Project was prepared and is being implemented by the DoT, GoUP, with advisory, technical and financial assistance from the World Bank. The Project aims to unlock the potential of UP's unique heritage through pro-poor tourism development for inclusive growth and poverty reduction in asset-rich, but low-income areas in the state.

The Project Development Objective is to increase tourism-related benefits for local communities in the project target areas through:

- a) Providing basic tourist infrastructure and facilities to enhance tourists' experience and thereby extend their stay and increase their expenditure in the selected destinations, while also enhancing living conditions for local communities;
- b) Increasing the proportion of tourist expenditure that benefits the local economy;
- c) Enhancing tourism governance and systems in the selected destinations and at state level;
- d) Supporting the participation of local communities and entrepreneurs in the tourism value chain.

The project has been informed by the lessons learned from the World Bank's accumulated experience in urban revitalization, cultural heritage and tourism development, as well as by thorough analyses and studies of the target areas, destinations, assets and people the project aims to support. The analyses and studies include (i) complete profiles of all target areas, (ii) a GIS-based inventory of their natural and cultural assets, (iii) a value chain analysis of local enterprises and tourism economy, (iv) a sample survey of street vending in Agra, and (v) mapping and assessments of the creative economy in all target areas.

In this initial phase, the project extends to two target areas in UP, important for the state's tourism sector, namely, Agra and the Braj region. Within these target areas, the project covers five destinations, namely:

- Agra
- Mathura, Vrindavan, Barsana, and Govardhan in the Braj region.

For further key financial, implementation and contact information regarding the Project, see Table 1 of **the POM**.

1.5 Project Financial Outlay Summary

The breakdown of financial outlays for the project by component as laid out in the Project Appraisal Document (PAD) is given in Table 1. All costs are indicative and may change as the project evolves.

Table 1: Project financial outlays

Component	Amount in USD Mn		Percentage of total project cost
	WB	GoUP	
1 – Destination Planning and Governance	2.5	1.05	6.12
2 – Tourist Products Development and Management	25.1	10.73	62.85
3 – Support to Local Economic Development	9.3	3.97	23.25
4 – Project Management	3.10	1.33	7.78
Grand Total	40.0	17.08	100.00

1.6 Project Institutional Arrangements

Chapter 3 of the POM covers the Project institutional and implementation arrangements in detail. The constitution of each of the agencies and its functions are covered in detail in **Section 3.1 to 3.8 of the POM**.

The DoT, as the Implementing Agency (IA), is responsible for the financial management of the Project. DoT conducts its financial management function through its institutional framework consisting of the SPCU located at Lucknow, and the Implementing Entities in the Project target areas, supported by technical specialists at TSUs.

The following agencies are the Project Implementing Entities:

- A. Agra Development Authority (ADA)
- B. Mathura-Vrindavan Development Authority (MVDA)

More departments/local bodies/agencies may be identified as implementing entities as the project progresses. Their eligibility will be subject to a fiduciary assessment as per Bank procedures.

2 Financial Powers and Duties

To maintain accountability and transparency in financial matters, financial powers have been identified for three aspects of each transaction:

- **Powers of expenditure sanction:** Every expenditure that is incurred has to be for a specific purpose, either towards creating/rehabilitating an asset or capacity or for operation and maintenance. Such expenditure has to be in accordance with the Approved/Revised Procurement Plans and Project budget and be sanctioned by the appropriate authority in each case.

- **Powers of approval of contract award:** After the expenditure sanction for various 'types' of expenditure has been accorded, in the case of larger expenditures (involving procurement of goods, works, services and consultancies), the necessary contracts need to be awarded, and in the case of operational expenditure, necessary purchase/work orders have to be issued. This shall be within the overall financial limits accorded for the contract award.
- **Powers of payment approval:** After a contract has been awarded and/or expenditure has been incurred, the payment for the same needs to be made as per the conditions of the contract or the purchase order issued. This completes the expenditure cycle.

The three powers are discussed in sections 2.1 to 2.3. Such powers have been specified at both SPCU and IE levels. These powers may be amended by the EC with the approval of the Bank, and will be effective from the date decided by the EC and the Bank. All approvals accorded at the SPCU will be sent to the CPD or his/her designee for information.

2.1 Powers of Expenditure Sanction

At the SPCU, the powers for sanction of Project expenditure are given in Table 2.

Table 2: Project expenditure sanction powers at SPCU

Project Authority	Financial limits for sanction of Project expenditure
Chief Project Director	Full powers
Additional Chief Project Director	Up to Rs. 10 lakhs (or as the CPD if designated)
Project Director	Up to Rs. 2 lakhs

At the IEs, the powers for sanction of Project expenditure are given in Table 3.

Table 3: Project expenditure sanction powers at IEs

Project Authority	Financial limits for sanction of Project expenditure
Vice-chairman of DA/Head of Office (in case of DoF and other departments)	Up to the Shopping limit (equivalent of US\$ 1 lakh, approx. Rs. 60 lakhs)

Conditions for expenditure approval

- The expenditure proposed for sanction must be part of a package/contract in the approved Annual Procurement Plan or the Revised Procurement Plan.
- The expenditure proposed will have prior clearance/approval from the SPCU.

2.2 Powers of Approval of Contract Award

At the SPCU, the financial powers for approval of contract award after completing the prescribed procurement process are given in Table 4.

Table 4: Contract award approval powers at SPCU

Project Authority	Financial limits for approval of contract award
Chief Project Director	Full powers

Project Authority	Financial limits for approval of contract award
Additional Chief Project Director	Up to Rs. 5 crore (or as the CPD if designated)
Project Director	Up to Rs. 1 crore with the concurrence of the CPD

At the IEs, the financial powers for approval of contract award, after following the prescribed procurement process, are given in Table 5.

Table 5: Contract award approval powers at IEs

Project Authority	Financial limits for approval of contract award
Vice-chairman of DA/Head of Office (in case of DoF and other departments)	Up to the Shopping limit (equivalent of US\$ 1 lakh, approx. Rs. 60 lakhs)

Conditions for approval of contract award

1. The expenditure for which the contract award is proposed must have been approved as prescribed.

2.3 Powers of Payment Approval

At the SPCU, the powers for approval of bills for payment are given in Table 6.

Table 6: Payment approval powers at SPCU

Project Authority	Financial limits for payment approval
Chief Project Director	Full
Additional Chief Project Director	Up to Rs. 10 lakhs (or as the CPD if designated)
Project Director	Up to Rs. 5 lakhs

At the IEs, the financial powers for approval of bills for payment are given in Table 7.

Table 7: Payment approval powers at IE

Project Authority	Financial limits for payment approval
Vice-chairman of DA/Head of Office (in case of other departments)	Full powers

Conditions for Payments Approval

- Payments will be processed as prescribed in the GoUP Financial Handbook (Vol I to Vol VIII);
- The payment is under a valid contract for an item of expenditure which is duly approved;
- All payments prior to release will be verified by the Finance Controller (FC)/Chief Accounts Officer (CAO).

3 Project Accounting - Structure and Functions

3.1 Structure of Accounting Function

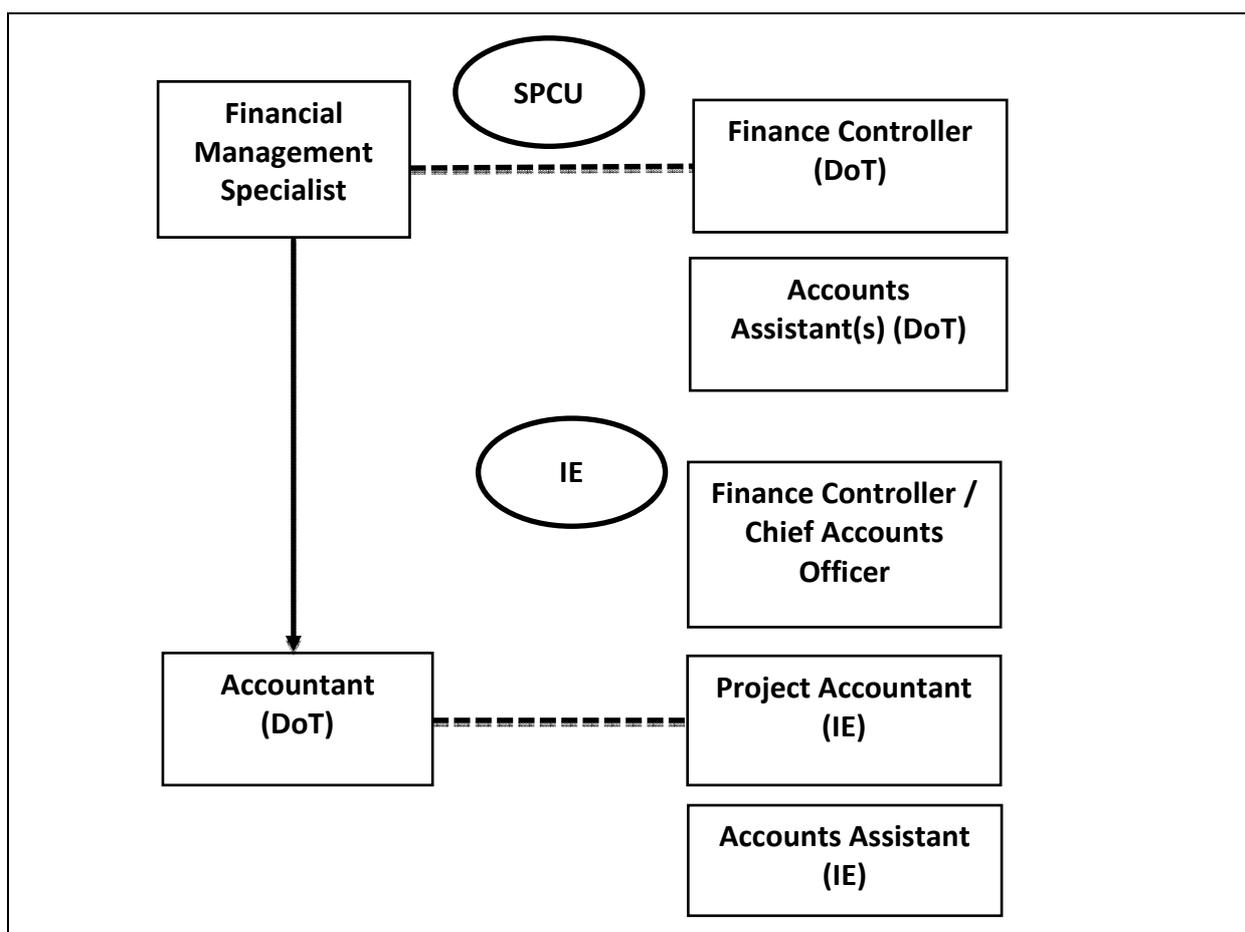
Project accounting is carried out at two levels: at the SPCU level and at the IE level.

At the SPCU, the FC heads the finance and accounting function. The FC is an officer of the Finance Department of GoUP. The FC may have one or more Project Accountants and Accounts Assistants to support him/her. The Financial Management Specialist of the SPCU supports this Project finance and accounting team.

At the IEs, each IE has its own accounts department. The department is headed by the FC/CAO. The FC/CAO is supported by one or more Accounts Officers, Accountants and Accounts Assistants as may be necessary. The TSU Accountant supports this team.

Figure 1 gives an overview of the structure of the finance and accounting function under the Project.

Figure 1: Accounting Structure for the Project



3.2 Functions and Duties of Finance and Accounts Team

At the SPCU

Finance Controller: The Finance Controller (FC) is responsible for overall monitoring of the Project's financial management and accounting. His/her responsibilities include:

- a) Supporting the CPD, ACPD, and the PD in preparing annual Project budgets.
- b) Withdrawing budget releases from the state and distributing them to the IEs.
- c) Verifying all expenditure out of the Project funds.
- d) Ensuring that all procurement/expenditure under the Project is in accordance with applicable rules/guidelines/PPM and is included in the Annual Procurement Plan or modifications to it as approved from time to time.
- e) Monitoring utilization and proper reporting of expenditure out of Project advances released to IEs.
- f) Providing financial concurrence for procurement and other Project expenditure, as required.
- g) Advising Project personnel at all levels on matters related to Project funds flow, financial management, and accounting.
- h) Verifying all interim financial reports, and other supporting documents before submission to state government, central government, the Bank and other authorities.
- i) Preparing Project Financial Statements.
- j) Ensuring bank reconciliation, treasury reconciliation, and other reconciliations on a monthly basis.
- k) Ensuring all statutory compliances are adhered to in Project financial transactions.
- l) Ensuring adherence to the POM, PPM, PFM and other applicable guidelines.
- m) Initiating statutory and internal audits periodically as per the Project audit requirements.
- n) Reviewing all audit reports and advising the Project personnel on steps to be taken.
- o) Participating in all Empowered Committee and Steering Committee meetings and other Project meetings as required.
- p) Periodically reviewing the finance, accounts and audit matters of the IEs and advising them as appropriate.
- q) Reviewing the work of the SPCU Financial Management Specialist and TSU Accountant.

The FC may delegate his/her work to one or more accountants as may be necessary for effectively performing his functions. The Financial Management Specialist of the SPCU will support the FC in fulfilling his responsibilities.

Financial Management Specialist: The Financial Management Specialist (FMS) is primarily responsible for handling/providing support in all accounting and financial matters pertaining to the Project, including financial sanctions, annual budget estimates, ensuring timely release of funds to IEs, monitoring of expenditure re-imburement from the Bank, auditing (statutory/internal) and audit follow-up. The FMS will ensure adherence by all

agencies to the PFM, and will work alongside the FC of the DoT. His/her responsibilities include:

- Assisting the Project in the preparation and consolidation of annual and revised budget estimates for the Project and ensuring that activities are budgeted under appropriate budget codes to facilitate generation of financial reports.
- Ensuring satisfactory accounts maintenance and update by the IEs, including regular reporting to SPCU.
- Reviewing Project costing, expenditures, claims and disbursements, and reconciling with information from Client Connection (Bank website).
- Visiting sub-project locations periodically for the purposes of monitoring, training, review of book-keeping and reporting arrangements. Reporting to DoT on issues and challenges.
- Monitoring expenditure and receipt of IFRs from the IEs and preparing consolidated reimbursement claims to be sent to the Controller of Aid, Accounts and Audit/ the Bank.
- Monitoring adequate staff capacities, skills, and resources at the IEs/TSUs for accounting and financial management. Providing/facilitating timely training to the finance staff in the IEs and TSUs.
- Monitoring adherence to the POM, PPM, PFM and other applicable guidelines and bringing any deviations to the notice of the FC.
- Preparing Consolidated Project Financial Statement of the Project.
- Preparing various interim financial reports for submission to various authorities and the Bank.
- Managing the internal and statutory audits of the Project and following up on compliance of audit observations.
- Following up with IEs in getting the accounts/financial statements of the Project audited in a timely manner.
- Providing training in Project financial and accounting matters to the TSU Accountants and IE accounting teams from time to time.
- Assisting the FC in discharging his responsibilities under the Project.
- Performing such other tasks as the CPD, ACPD, PD and FC may direct from time to time for proper implementation of the Project.

At the IEs

Finance Controller/Chief Accounts Officer: The FC/CAO or the head of finance, by whatever name used at each IE, will oversee all financial and accounting matters under the Project at the IE level. His/her responsibilities include:

- A. Preparing the budget estimates and revised estimates for the packages/ contracts assigned to the IE and forwarding them to the SPCU after obtaining necessary approvals.
- B. Communicating fund requirements from time to time to the SPCU in advance based on proposed expenditure.
- C. Maintaining the Project funds in a separate bank account and ensuring that such funds are not mixed with the other funds of the IE.

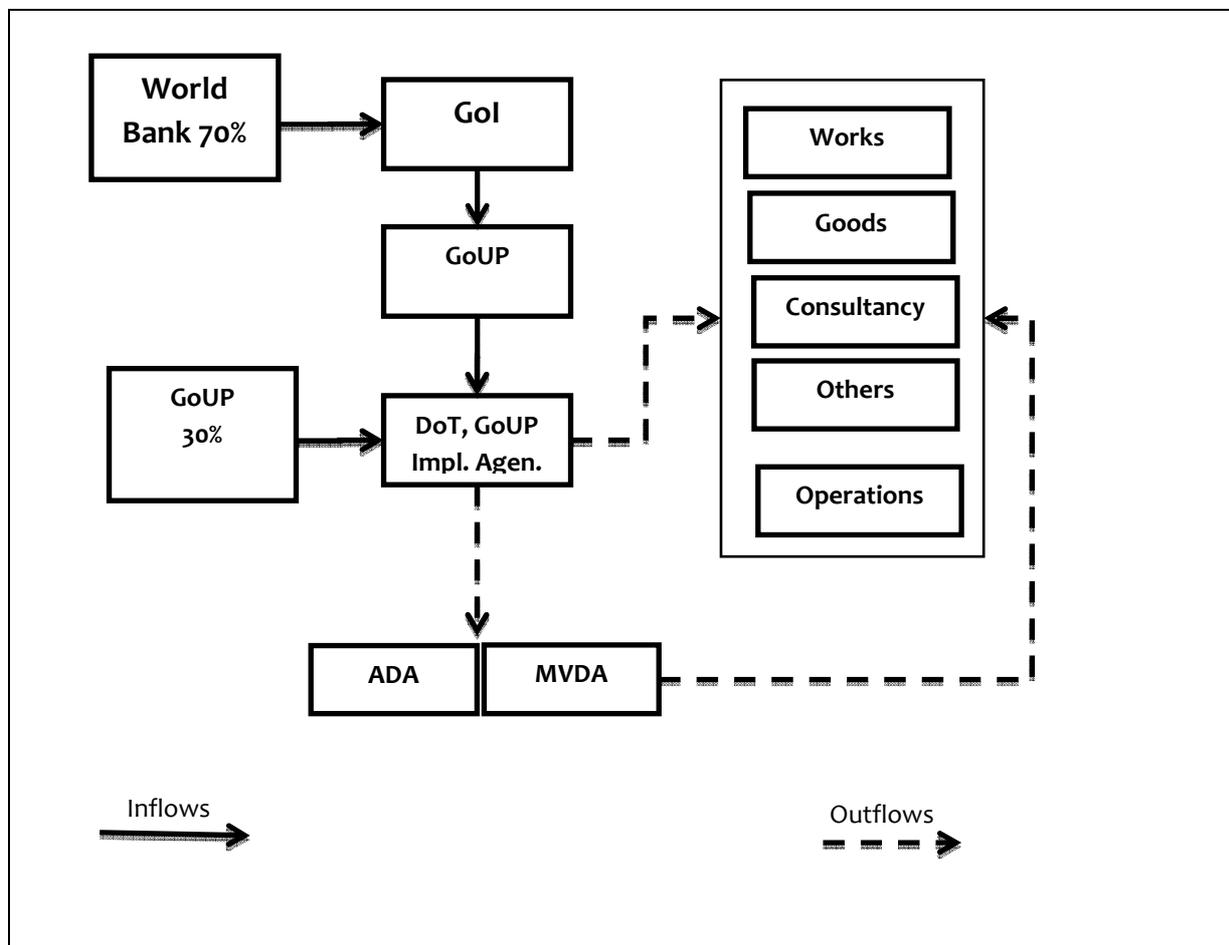
- D. Processing payments under the Project subject to necessary approvals and in accordance with the Project requirements.
- E. Maintaining proper accounts and prescribed registers for all moneys received from the SPCU and all expenditure incurred out of such moneys.
- F. Preparing monthly reconciliation of bank accounts and Project expenditure statements.
- G. Maintaining complete records of all advances, retention moneys, guarantees received/paid under the Project and ensuring that such advances/deposits/retention moneys are paid/repaid in accordance with the prescribed rules and after necessary approvals.
- H. Ensuring that all procurement/expenditure under the Project is in accordance with applicable rules/guidelines and is included in the Annual Procurement Plan or modifications to it as approved from time to time.
- I. Providing financial concurrence for procurement and other Project expenditure, as required.
- J. Advising the Project personnel at the IE level on matters related to Project funds flow, financial management and accounting.
- K. Preparing and reviewing all interim financial reports, and other supporting documents before submission to SPCU.
- L. Ensuring all statutory compliances are adhered to in Project financial transactions.
- M. Ensuring adherence to the POM, PPM, PFM and other applicable guidelines.
- N. Furnishing all information sought by internal/statutory audit.
- O. Furnishing replies to audit queries and audit reports within a reasonable time.
- P. Participating in all Field Level Review Committee meetings and other Project meetings as required.
- Q. Reviewing the work of the Accountants of IEs.

The FC/CAO may delegate the work to one or more accountants as may be necessary for effectively discharging these functions.

4 Project Fund Flows and Utilization

Figure 2 gives an overview of the Project fund flows and their utilization.

Figure 2: Project Fund Flows



4.1 Project Fund Flows

The Project cost is constituted by 70% funding from the Bank and contribution from the GoUP to the extent of 30%. Expenditure under this Project will be budgeted as part of the annual state budget. The DoT will follow the prescribed GoUP procedures for budgeting and will incorporate the expenditure proposed under the Project in the financial year in the annual state budget. The Bank releases funds on reimbursement basis, as per the loan agreement. The Bank funds are provided to Gol and are subsequently passed on to GoUP.

Project Budget Head

For ensuring budgetary control and effective monitoring of Project expenditure, a Project specific budget head (in the state budget) has been created. The budget head under which the releases under this Project will be made is shown in Table 8.

Table 8: Budget Head for Project

Head of Account	Nomenclature
5452-01-80-104-97-9701-24	UPPPTDP - capital outlay on tourism-general-promotion and publicity-9701-Pro-Poor Tourism Development Project in Agra-Braj corridor and Buddhist Circuit-large scale construction

For payment of salary/SPCU & TSU staff's retainership fees/consultancy-supervision fees and other operating expenditure, a budget provision under states's major budget head code 3452 may be created.

Funds Flow from the Bank to the GoUP through Gol - Disbursement

Releases from the Bank under the Project are made in the form of reimbursement of eligible Project expenditure based on the Interim Financial Reports (IFRs) submitted by the Project. Any Project expenditure incurred in violation of the covenants of the loan agreement with the Bank or in violation of the applicable Bank guidelines is liable to be treated as ineligible and not be reimbursed by the Bank. For the eligible expenditure, the Bank will transfer the Project funds into a special account opened for the Project with the Reserve Bank of India. The Controller of Aid, Accounts and Audit (CAAA), Department of Economic Affairs, Gol operates this account. From Gol to the GoUP, there will be a back-to-back transfer of funds on receipt of funds from the Bank.

IFRs shall be submitted to the Bank on a quarterly basis within 45 days of close of the quarter. Based on need, an advance of upto US\$2 million may be requested any time during the life time of the Project; this will be recovered from disbursements that are made near closure of the Project period.

Funds Flow from GoUP to the Project

The GoUP will make an annual allocation for the Project as part of the budget of the DoT under a separate Head of Account (See Table 8). Periodic releases are made by the Finance Department under the Project Head of Account to the DoT for its own expenditure as the lead implementing agency, as well as for onward transfers to the IEs as the case may be.

Funds Flow from DoT to Implementing Entities

The DoT in turn will release the funds released under the Project Head of Account to the IEs for incurred approved expenditure under the Project. All releases are initially treated as advances to IEs. Subsequent releases to IEs are made only on receipt and acceptance of Project Funds Utilization Report in Form IFR-4.

Before releasing funds to the IEs, the SPCU will ensure that:

- The IE has submitted quarterly Project Funds Utilization Reports in Form IFR-4;

- The funds released for the previous completed quarter have been fully utilized. If they have not been fully utilized then, the funds to be released will be reduced by the extent of the unutilized amount.
- The quarterly Project Funds Utilization Report is supported by necessary documents for the expenditure incurred;
- The monthly Trial Balance and Bank Statement has been submitted by the IE along with the Project Funds Utilization Report and any differences between the Trial Balance and the report are reconciled;
- The expenditure declared in the quarterly Project Funds Utilization Report has been certified as spent by the FC/CAO;
- The IE has furnished satisfactory explanations for queries raised, if any, on previous reports;
- The advance to IE as per the SPCU records has been reconciled with the IE bank balances; and
- The IE has not included items such as advances not allowable as Project expenditure.

4.2 Funds Utilization

Project funds will be released by the SPCU to IEs in the manner discussed above. The funds will be spent by the IEs on contracts relating to works, goods, non-consulting services, and consulting services. In addition, Project funds may also be spent on operating expenses of the SPCU and the IEs to the extent eligible.

Project funds will be spent only on items that are approved as Project expenditure. Such items of expenditure must be identified in the Annual Procurement Plan or subsequent revisions to the Procurement Plan. Any expenditure on items not in the Annual Procurement Plan will not be allowable as Project expenditure unless such expenditure is subsequently ratified by the EC and included in the revised Procurement Plan or is of the nature of approved Project operational expenditure.

Further Project expenditure can only be incurred subject to appropriate approvals at the SPCU and the IE as discussed in **Chapter 2**.

4.3 Retroactive Financing

Retroactive financing refers to the reimbursement of the pre-Project expenditure incurred by DoT. This will be available to the Project under the following conditions:

- The activities financed are included in the Project description;
- The payments are for items procured in accordance with applicable Bank procurement procedures;
- Such payments do not exceed 20 percent of the loan amount; and
- The payments were made by the borrower not more than 12 months before the expected date of loan agreement signing.

4.4 Categories of Eligible Expenditure

Table 9 specifies the categories of eligible expenditures that may be financed out of proceedings of the loan under this Project.

Table 9: Eligible expenditures for financing from proceedings of loan

Category	Loan amount	Percentage of expenditures to be financed (inclusive of taxes)
Goods, works, consultants' services, training and operating costs under the Project	US\$40 million	70%

5 Project Planning and Budgeting

5.1 Project Planning

Project planning requires the participation of the SPCU, the IEs, and the TSUs. The planning is done in the following two ways:

- a) Annual Planning and Budgeting exercise, leading to the finalization of the Annual Procurement Plan and the Annual Project Budget, and
- b) Quarterly Work Planning exercise, leading to approval of the Quarterly Work Plans and revisions to the Annual Procurement Plan, if necessary.

The annual procurement planning exercise is discussed in **Section 3.10 and 3.11 of the PPM**. The quarterly work planning exercise is discussed in **Section 6.3 of the POM**.

Note: The quarterly work planning might result in revisions to the Annual Procurement Plan. However, the Project budget is not revised on a quarterly basis. All changes in budget allocations are consolidated and presented in the revised estimates during the subsequent annual Project budgeting exercise.

5.2 Project Budget

Budget is the plan expressed in financial terms; it provides the way for fund allocation by the government through the state budget, and also provides the basis for incurring expenditure during the budget period.

The Project budget and the activities envisaged in the Annual/Revised Procurement Plan will be in line with the Financing Agreement. The SPCU will ensure that the total expenditure under each Project component does not exceed the total cost specified in the loan agreement against that Project component.

5.3 Project Budget Calendar

The Project budget calendar outlines various activities for preparation of the Project budget along with the responsibility for each activity. The Project budget calendar ensures that the activities for Project budget preparation are aligned to the timelines for preparation and forwarding of the departmental budget of DoT to the state government. An indicative calendar of budget activities is given in Table 10.

Table 10: Project budget calendar¹

Activity	Responsibility	Timeline	Remarks
Submission of procurement requirements along with budget estimate for the forthcoming year	Each IE	October 15 th	
Consolidation, discussion	SPCU	October 31 st	

¹The actual timelines for each financial year may vary depending on the budget calendar published by the Finance Department for the state budget preparation.

and finalization of Annual Procurement Plan			
Preparation of Project budget estimates for forthcoming year	SPCU	October 31 st	
Approval by Steering Committee	SC	November 15 th	
Submission of departmental budget estimates to Finance Department	DoT	December 31 st	Departmental estimates include Project budget estimates
Approval of state budget	GoUP	March 31 st	
Modification to Annual Procurement Plan	SPCU	April 30 th	If any changes from the original Annual Procurement Plan are necessary to bring it in line with the approved budget for the Project in the state budget
Preparation of Project budget	SPCU	April 30 th	In line with the original/revised Procurement Plan
Approval by EC	EC	May 15 th	

5.4 Budgeting Process

Annual procurement planning precedes the annual budgeting exercise. Based on the Annual Procurement Plan, the SPCU prepares the Project budget estimates. The budget estimates are placed before the SC for approval. After approval by the SC, the Project budget is placed before the EC for its approval. The DoT will include the Project budget in the department's budget proposals to the GoUP. Based on the budget requirement, necessary provision is made in the state budget for this Project. The GoUP makes an annual allocation in the DoT budget under a separate Head of Account for this Project. The state budget is approved by the state legislature.

The budget will be prepared following the government system of budgeting as per the GoUP Budget Manual, circulars, instructions and guidelines issued by the Finance Department, GoUP, and against the agreed components of the Project as per the loan agreement.

On approval of the state budget by the state legislature, the exact budget allocation for the Project is known. Necessary modifications, if any, are made in the Annual Procurement Plan. The Annual Project Budget is finalized in line with the modifications to the Annual Procurement Plan.

The budget estimates as well as the Annual Project Budget are prepared in **Form BD-1**. The Annual Procurement Plan and the Annual Project Budget are subject to the approval of the EC as well as the Bank.

While preparing the budget, the following will be noted:

- Annual Project Budget is prepared based on the activities proposed for the ensuing year, taking into consideration any spill over of activities/ works of the previous periods.
- Revised budget arises when there are major changes or any major revision to the line items or to the budgeted amounts.

In addition to the Annual Project Budget, the SPCU will also budget for funds requirements on a quarterly basis at the time of quarterly work planning. This ensures better planning and monitoring, and helps in planning fund requirements on an ongoing basis for the Project. The quarterly Project work planning exercise and is described in **Section 6.3 of the POM**.

5.5 Budget Review and Monitoring

The SPCU will ensure a system of plan/budget review at least on a quarterly basis for monitoring and reviewing the physical and financial performance parameters of the Project. This will be done at the level of PD, as well as by the SC. A quarterly review will be done at the EC level. The SPCU will prepare, compare, and provide analysis of the actual expenditure against the budget on a quarterly basis. The budget versus actual performance review will also cover the physical progress using key indicators for better understanding of the issues underlying and for taking corrective action. The type of reviews, the frequency and the formats for reporting are covered in **Section 9.2 of the POM**.

Annual Project Budget Template

UP Pro-Poor Tourism Development Project Annual Project Budget For the year _____							INR
Budget line items	Actuals (Prev. year)	Budget estima tes (Curr. year)	Actuals (Curr. year upto _____)	Revised estimates (Curr. year)	Budget estimates (Next year)	Remark	
Component 1 – Destination Planning and Governance							
1.1	Formulation of destination- level tourism development plans for selected destinations						
	<Line item 1>						
	<Line item 2>						
1.2	Support to refinement of branding and promotion strategies for target destinations						

UP Pro-Poor Tourism Development Project Annual Project Budget For the year _____							INR
Budget line items	Actuals (Prev. year)	Budget estima tes (Curr. year)	Actuals (Curr. year upto _____)	Revised estimates (Curr. year)	Budget estimates (Next year)	Remark	
<Line item 1>							
<Line item 2>							
1.3	Strengthening of public, private and community institutions involved in the tourism sector for coordinated destination management						
<Line item 1>							
<Line item 2>							
1.4	Improvement of the state visitor management and information systems						
<Line item 1>							
<Line item 2>							
1.5	Support to public-private dialogue						
<Line item 1>							
<Line item 2>							
1.6	Training of individuals and groups employed in the tourism section						
<Line item 1>							
<Line item 2>							
Sub-total							
Component 2 – Tourist Products Development and Management							
2.1	Enhancement of existing attractions and their surroundings						
<Line item 1>							
<Line item 2>							
2.2	Provision of interpretation and information facilities at tourist attractions						
<Line item 1>							
<Line item 2>							

UP Pro-Poor Tourism Development Project Annual Project Budget For the year _____							INR
Budget line items	Actuals (Prev. year)	Budget estima tes (Curr. year)	Actuals (Curr. year upto _____)	Revised estimates (Curr. year)	Budget estimates (Next year)	Remark	
2.3	Development/rehabilitation and diversification of destination-level products and activities						
	<Line item 1>						
	<Line item 2>						
2.4	Provision of facilities and services for tourists and local communities						
	<Line item 1>						
	<Line item 2>						
2.5	Improvement of access to main sites and tourist products and their adjacent communities						
	<Line item 1>						
	<Line item 2>						
	Sub-total						
Component 3 – Support to Local Economic Development							
3.1	Mapping of local productive and creative industries and support to business development and tourism service providers						
	<Line item 1>						
	<Line item 2>						
3.2	Provision of training, information, tools and infrastructure for business development, production and marketing						
	<Line item 1>						
	<Line item 2>						
3.3	Enhancement and/or diversification of skills for artisans and tourism service providers						
	<Line item 1>						
	<Line item 2>						
3.4	Branding and promotion of locally produced goods linked to tourism products						
	<Line item 1>						
	<Line item 2>						

UP Pro-Poor Tourism Development Project Annual Project Budget For the year _____							INR
Budget line items	Actuals (Prev. year)	Budget estima tes (Curr. year)	Actuals (Curr. year upto _____)	Revised estimates (Curr. year)	Budget estimates (Next year)	Remark	
Sub-total							
Component 4 – Project Management							
4.1	Establishment and operation of SPCU and TSUs						
	<Line item 1>						
	<Line item 2>						
4.2	Project monitoring and information system						
	<Line item 1>						
	<Line item 2>						
4.3	Project communication						
	<Line item 1>						
	<Line item 2>						
	Sub-total						
	Grand Total						
	World Bank share – 70%						
	GoUP share – 30%						

6 Project Accounting

6.1 Overview

The rules governing accounting by various agencies under the Project are different. From an accounting perspective, there are two types of entities, namely, the government departments (DoT) and the DAs. Rules for accounting for government departments are provided in the State Financial Handbook (Vol. I to VIII) and the GoUP Budget Manual. Rules for DAs are contained in the Uttar Pradesh Development Authorities Finance and Accounts Manual.

The systems of accounting are also different. While the government departments follow the Treasury System of accounting—cash based, single entry – the DAs follow the accrual-based, double entry system of accounting. Accounting, financial reporting and reimbursements under this Project will always be on a cash basis and not accrual basis. The system of accounting, the records to be maintained and the type of accounting entries are discussed in the subsequent sections.

The accounting system is a critical part of the Project's financial management system and its design and operation are therefore of great importance. The accounting system should:

- provide information compatible with the agreed accounting standards;
- be simple and user friendly;
- be capable of installation and maintenance by Project personnel, and be easily understandable by users;
- provide adequate documentation and audit trails;
- provide reliable and timely information, including financial management and other reports; and
- maintain integrity of information recorded.

Since the Project is being implemented by existing entities with well-established accounting systems, this Manual does not prescribe a separate accounting system for this Project. However, the basic financial information to be recorded, the manner of recording, and basic records to be maintained for adequate control over Project finances are spelt out.

6.2 Project-related Treasury/Bank Accounts

At the SPCU

At the SPCU level, Project receipts and payments are handled using the DoT Treasury Account. No separate bank account is operated for the Project.

At the IEs

Each Development Authority (DA) will maintain a separate bank account for this Project. All Project fund inflows and outflows are made from the Project bank account.

Any other government department identified as an IE under this Project (e.g., Department of Forests), will conduct financial transactions under the Project using the Treasury Account of the respective departments.

6.3 Basis of Accounting

At the SPCU

Project expenditure accounting will be on a cash basis at the SPCU level; the accounting happens as and when the Treasury bills are drawn. All expenditures are charged to the Project Head of Account.

For tracking Project expenditure at a component/sub-component level, for tracking advances to IEs, and for reporting purposes, additional records are required to be maintained at the SPCU. Maintenance of such records applying double entry accounting principles is encouraged to maintain uniformity of accounting across all Project entities. This will facilitate reconciliations and financial reporting across SPCU, the IEs, and any external parties.

At the IEs

Project expenditure accounting at the IEs is also on a cash basis². In the case of the DAs, the accounts are maintained under the double entry system of accounting. In the case of any government departments acting as IEs, accounts are maintained under the Treasury-based system. Modifications are made in the existing chart of accounts to accommodate Heads of Account for the Project.

6.4 Accounting Policies

At the SPCU

- Receipts in the form of Budget Releases from the state government are accounted as and when the release order is passed by the government and the funds become available for spending under the Project Head of Account.
- Onward releases to IEs are charged to the Project Head of Account when the Treasury bill is drawn for release. Such releases are treated as advances to IEs for Project reporting purposes.
- On receipt of monthly expenditure details (IFR) and approval by the SPCU, the amount equivalent to the expenditure approved is recorded as Project expenditure against the relevant Project component/sub-component for Project reporting purposes. The advance to the IE is reduced to the same extent. Actual Project expenditure (before deductions) is recorded.
- Expenditure incurred by the SPCU directly is charged to the Project Head of Account when the Treasury bill is drawn. Such expenditure is recorded against the relevant Project component/sub-component (actual expenditure incurred before deductions) for Project reporting purposes.

²Though the DAs are required to maintain accounts on an accrual basis, the expenditure entries are actually passed on a cash basis (while making payments).

- Foreign currency transactions, if any, will be recorded in local currency (Indian rupee) at the exchange rate prevailing on the date of the transaction and applied by the bank which has received or paid in foreign currency on behalf of the Project.

At the IEs

- Releases received from the DoT are accounted as a liability (unspent grant) on receipt.
- Expenditure incurred is accounted under the respective Head of Account (created specifically to account Project expenditure) as and when paid. Actual expenditure incurred (before deductions) is accounted.
- Expenditure on works is accounted under Capital Work-in-progress until the time of completion of the works. On completion, such assets are accounted under the relevant fixed asset Head of Account and Capital Work-in-progress is reduced to that extent.
- Advances paid, if any, are accounted as advances under the respective Advance Heads of Account. Such advances are adjusted when recovered out of expenditure bills.
- Deposits in the nature of Earnest Money Deposits (EMD) and retention moneys are treated as a liability as and when collected/recovered under the respective Deposit Heads of Account. The liability is reduced as and when such deposits are repaid.
- On submission of monthly expenditure reports (IFR) and approval by the SPCU, the amount equivalent to the expenditure approved is accounted as grant income under the Project and the unutilized grant liability is reduced to that extent.
- Foreign currency transactions, if any, will be recorded in local currency (Indian rupee) at the exchange rate prevailing on the date of the transaction and applied by the bank which has received or paid in foreign currency on behalf of the Project.

6.5 Chart of Accounts

At the SPCU

For expenditure accounting, all payments are charged to the Project Head of Account as appearing in the DoT budget. However, for internal Project reporting, a simple chart of accounts (CoA) that facilitates tracking of expenditure by nature and by Project component/sub-component has been designed. The CoA has been developed based on double entry accounting principles. The CoA at the SPCU for Project reporting is given below.

i. LIABILITIES

- a. Deposits
 - i. <>
 - ii. <>
 - iii. <>
- b. Statutory Liabilities
 - i. <>

- ii. <>
- iii. <>

ii. **ASSETS**

- a. Treasury Control Account
- b. Advances
 - i. Contractor Advances
 - 1. <>
 - 2. <>
 - 3. <>
 - ii. Travelling Advances
 - 1. <>
 - 2. <>
 - 3. <>
 - iii. Advance to IE
 - ADA
 - MVDA

iii. **INCOME (Inflow)**

- a. Budget Releases (UPPPTDP)

iv. **EXPENDITURE**

- a. <Component>
 - i. <Sub-component>

At the IEs

In the case of DAs, the existing CoA prescribed by the UP Development Authorities Finance and Accounts Manual (Part III: Accounting Methodology, Section No. 14, Chart of Accounts) requires certain modifications (in terms of renaming of account heads or a new account head) to suit Project accounting. The specific additions/modifications required in the CoA are given below.

v. **LIABILITIES**

- a. II – Unutilized Grants/Contributions
 - i. 1.2 – Unutilized grant funds
 - 4. 1.2.1 – Specific purpose grants
 - a. 1.2.1.4 – UPPPTDP Grants release
- b. VIII – Current liabilities and provisions
 - i. 1.8 – Current liabilities and provisions
 - 1. 1.8.4 – Earnest money and deducted security deposits
 - a. <>
 - b. <>
 - 2. 1.8.8 – TDS Payable
 - a. 1.8.8.2 – TDS Contractors/Suppliers
 - b. 1.8.8.3 – TDS Professionals
 - c. 1.8.8.4 – TDS Others
 - 3. 1.8.9 – Trade Tax/Works Contract Tax Payable

- a. 1.8.9.1 – WCT/TT Contractors
- b. 1.8.9.2 – WCT/TT Suppliers
- c. 1.8.9.3 – WCT/TT Others

vi. **ASSETS**

- c. IX – Fixed assets
 - i. <Specific heads to be created under each level for accounting UPPPTDP expenditure>
 - ii. 2.6 – Capital work in progress
 - 1. <Specific heads to be created for accounting UPPPTDP expenditure>
- d. XII – Current assets, loans and advances
 - i. 2.4 - Current assets, loans and advances
 - 1. 2.4.5 – Other loans/advances
 - a. 2.4.5.2 – Sundry suppliers
 - i. <>
 - ii. <>
 - b. 2.4.5.3 – Sundry contractors
 - i. <>
 - ii. <>
 - 2. 2.4.4 – Loans and advances to employees
 - a. 2.4.4.2 – Other advances
 - i. <>
 - ii. <>
 - 3. 2.4.9 – Balances with banks and post office, cash and others
 - a. 2.4.9.1 – Bank account
 - i. <>

vii. **INCOME**

- e. XXXV – Income from grants
 - i. 5.10 – Grant income
 - 1. 5.10.1 – UPPPTDP grants

viii. **EXPENDITURE**

- a. <Specific heads to be created under each level of the Chart of Accounts for accounting UPPPTDP expenditure. The account heads created for the Project will contain the name of the package and the contract code for easy identification
(For example, if the expenditure is on repair and maintenance of a water body under the Project, a head of account will be created under EXPENDITURE >> XXV – Administrative Cost >> 6.2 – Administrative Cost >> 6.2.2 – Repair and Maintenance for accounting the Project expenditure)

In the case of government departments acting as IEs, which operate on the Treasury system directly, no separate CoA is prescribed at the IE level. The Project expenditure is charged to the Head of Account assigned to the Project in the departmental budget as and when paid.

6.6 Schema of Accounting Entries

At the SPCU

The schema of accounting for common types of transactions at SPCU is given in Table 11.

Table 11: Schema of accounting entries at SPCU

	Activity	Dr	Cr	Registers	Control	Remarks
1	Receipt of GO for the budget release to Project	Treasury Control A/c	Budget Release (UPPPTDP) A/c	Grant Register, Treasury Cash Book	This will show the amount that is available in the budget for spending	There will be as many entries in the register as the number of releases
2	Release of advance to IE	Advance to IE -- XXX A/c	Treasury Control A/c	Treasury Cash Book		The money released to a particular IE (shown as XXX)
Note: At any point in time, the Treasury Control will provide info on the budget releases and transfers made to various IEs and the balance remaining undrawn from the Treasury.						
3	IE submits expenditure statements	Various Expenditure heads	Advance to IE – XXX A/c	Treasury Cash Book, Ledger	The balance remaining in a particular IE's advance a/c will indicate the Project funds released but not spent.	
Note: This goes on in cycles. At the SPCU, the fund releases and expenditure can be monitored component-wise.						
4	Advance for procurement at SPCU	Advances – Contract Advances - <Contractor A/c>	Treasury Control A/c	Treasury Cash Book, Ledger, Advance Register		
5	Project expenditure at SPCU	Various Expenditure Heads	Advances – Contract Advances - <Contractor A/c> Treasury Control A/c	Treasury Cash Book, Ledger, Bills Register		Funds with contractors pending completion of work or supply of goods/services will be known.

At the IEs

The schema of accounting for common types of transactions in the Project accounts at the DAs is given in

Table 12.

Table 12: Scheme of accounting entries in IEs

Activity	Dr	Cr	Register/ Books of Accounts	Control	Remarks
1 Receipt of advance from SPCU	Bank A/c	UPPPTDP Grants Release A/c	Cash Book, Ledger, Grant Register	The liability account will at any time show the balance of unutilized grant.	
2 Advance for procurement at the IE level	Other loans/Advances - <Contractor A/c>	Bank A/c	Cash Book, Ledger, Advance Register		
3 Payment of bills from Contractors, Suppliers	Various Expenditure Heads/Fixed Asset Heads/Capital Work-in-progress Heads	Other loans/Advances - <Contractor A/c> Bank A/c	Cash Book, Bills Register, Asset Register, Contracts Register, Training Register		
4 IE submits expenditure statements and acceptance by SPCU	UPPPTDP Grant Release A/c	UPPPTDP Grants A/c	Grant register	The balance remaining in a particular IE's Grant Release a/c will indicate the funds drawn from Project but not spent.	

6.7 Books of Accounts/Important Registers

At the SPCU

The requirements for maintaining books of accounts at the SPCU are governed primarily by the requirements of the GoUP Financial Handbook (Vol I to VIII) and the Budget Manual. Certain important registers to be maintained and the information that such registers must contain are shown in

Table 13.

Table 13: List of books/registers to be maintained at SPCU

No.	Description	Particulars
1	Treasury Cash Book	All receipts and payments under the Project Head of Account
2	Bill Register	Particulars of all expenditure bills received and paid
3	Asset Registers <ul style="list-style-type: none"> • Register of land • Register of buildings • Register of furniture and fixtures • Register of equipment • Register of vehicles • Register of other movable assets • Register of Consumables 	Particulars of expenditure on assets (including movable assets) created under the Project at the DoT. Depending on the type of assets like water bodies or heritage assets, they may be indicated in the respective Fixed Asset register clearly. The list of asset registers given here is suggestive; based on requirements, more registers may be maintained.
4	Register of Works Expenditure	Particulars of expenditure on various works undertaken by the SPCU under the Project
5	Treasury Register	Treasury receipts and bills drawn
6	Contracts Register	Particulars of all contracts entered into by the SPCU under the Project
7	Claims monitoring Register	Record of all reimbursement claims submitted under the Project and their status
8	Advances Register	Particulars of all advances paid and their recovery
9	Deposits Register	Particulars of all deposits received/deducted and their repayment
10	Travelling expense Register	Particulars of all travelling expenses paid to Project personnel
11	Measurement Book	Measurements of civil works
12	Payables Register	Particulars of all statutory deductions from bills and their remittance at the SPCU

Note: This list is only indicative. The Project Director will from time to time specify the books and registers to be maintained at SPCU to satisfy the requirements of the Project/the Bank/GoUP/auditors/other authorities.

At the IEs

The requirements for books of account to be maintained at the DAs are governed by the UP Development Authorities Finance and Accounts Manual. The important books of account and registers to be maintained and the information that such registers must contain are shown in

Table 14.

Table 14: List of books/registers to be maintained at IEs

No.	Description	Particulars
1	Bank Book	All receipts and payments from the Project bank account (applicable for DAs and other IEs that operate bank account for the Project)
2	Treasury Cash Book	All receipts and payments under the Project Head of Account (applicable for DoF and other IEs that operate Treasury account for the Project)
3	General Ledger	Particulars of all financial transactions pertaining to a particular Head of Account
4	Journal Book	Records all journal entries
5	Bill Register	Particulars of all expenditure bills received and paid
6	Asset Registers	Particulars of expenditure on assets (including movable assets) created under the Project at the IE. Depending on the type of assets like water bodies or heritage assets, they may be indicated in the respective Fixed Asset register clearly. The list of asset registers given here is suggestive; based on requirements, more registers may be maintained.
	<ul style="list-style-type: none"> • Register of land 	
	<ul style="list-style-type: none"> • Register of buildings 	
	<ul style="list-style-type: none"> • Register of furniture and fixtures 	
	<ul style="list-style-type: none"> • Register of equipment 	
	<ul style="list-style-type: none"> • Register of vehicles • Register of other movable assets 	
7	Register of Works Expenditure	Particulars of expenditure on various works undertaken by the IE under the Project
8	Treasury Register	Treasury receipts and bills drawn (not applicable for DAs)
9	Contracts Register	Particulars of all contracts entered into by the IE under the Project
10	Advances Register	Particulars of all advances paid and their recovery
11	Deposits Register	Particulars of all deposits received/deducted and their repayment
12	Measurement Book	Measurements of civil works
13	Payables Register	Particulars of all statutory deductions from bills and their remittance at the IE

Note: This list is only indicative. The Project Director will from time to time specify the books and registers to be maintained at IEs to satisfy the requirements of the Project/the Bank/GoUP/auditors/other authorities.

Any other IEs, such as government departments, are governed by the same rules as the DoT and will maintain the same books and registers as prescribed for the SPCU.

6.8 Accounting Process: Vouchers, Book-keeping, Reporting

At the SPCU

The process for incurring expenditure, processing of bills, payment processing, and maintenance of records are governed by the GoUP procedures as laid down in the GoUP Financial Handbook (Vol I to VIII). Such procedures for the Project are the same as those followed by the DoT for regular departmental expenditure. The procedures are subject to the approval levels and powers described in **Chapter 2**.

In this regard, the following general principles will be followed:

- The Annual Project Budget, and Annual Procurement Plan approved by EC and the Bank shall be followed in full spirit;
- All Project expenditure shall be incurred only as per approvals prescribed in this Manual;
- Only approved expenditure will be passed for payments;
- For payments, all payment vouchers will be approved by concerned persons, and have the necessary supporting documents in place. After the payments are made and entries passed in the accounting system, all the documents will be filed in respective files, and be available for verification and audit;
- All vouchers (payment vouchers, etc.) will be serially numbered for every accounting year;
- Various monthly, quarterly, and periodic reports as prescribed by the Bank, those prescribed by the government authorities, and those specified in this Manual will be maintained;
- Every month, the accounts will be closed and monthly reports prepared latest by the 10th of the following month.

At the IEs

The accounting processes at the DAs are governed by Chapter VII of the Uttar Pradesh Urban Planning and Development Act, 1973. The detailed procedures are prescribed in the UP Development Authorities Finance and Accounts Manual. The procedures are subject to the approval levels and powers described in **Chapter 2**.

Any IEs other than the DAs, such as government departments (e.g. DoF), will follow the same procedures as those followed by the DoT.

6.9 Reconciliations

Reconciliation is an important step in ensuring the correctness and completeness of Project accounts. Different types of reconciliations need to be carried out at various levels in the Project implementation structure.

At the SPCU

The following reconciliations will be undertaken at the SPCU level:

Quarterly

- Project expenditure vis-à-vis expenditure as reported by IEs
- Claims vis-à-vis Project expenditure
- IFR vis-à-vis Project expenditure
- State share vis-à-vis Bank share

Monthly

- Treasury reconciliation
- Advances to IEs vis-à-vis IE bank balances
- Advances
- Deposits
- Statutory payables

At the IEs

The following reconciliations will be undertaken at the IE level:

Quarterly

- Project expenditure reported to SPCU vis-à-vis expenditure as per books of account

Monthly

- Bank reconciliation
- Unutilized grants vis-à-vis bank balances
- Advances
- Deposits
- Statutory payables

6.10 Records Maintenance

In order to maintain control over the Project's financial information, certain records and documents will be maintained by the SPCU, IEs, and the TSUs in a systematic manner. Such records are required for Project reporting. These documents will be required by various authorities for review and also during audit by internal auditors, statutory auditors, and during procurement reviews and implementation support missions by the Bank.

- 5 Procurement plans, work plans and annual budgets.
- 6 Tender notices, tender documents, evaluation reports.
- 7 Approvals of the Bank, wherever applicable, and approvals of the competent authority/committee for administrative and financial matters.
- 8 Purchase/work orders, contracts, challans, goods receipt notes, certificates.
- 9 Treasury payment bills along with supporting documents.
- 10 Bank payment vouchers along with supporting documents.

- 11 Measurement books, running and final bills.
- 12 Claim documents and reports submitted to the government and the Bank.
- 13 Audit reports.
- 14 Other documents that may be required for review and audit.

Note: The above listed records and documents are only indicative. A more detailed listing of files and records to be maintained is given in **Section 7.5 of the POM**.

6.11 Statutory Compliances

The Project will comply with all applicable statutory requirements, e.g., compliances regarding payments made in terms of tax deduction at source (TDS) for contractors, suppliers, and consultants under the Income Tax Act. Purchases of goods are subject to GST or other applicable tax at the time of implementation of the Project. Works contracts are subject to works contract tax/GST deduction as well as deduction of labour cess.

In general, the following steps will be followed in terms of ensuring compliance:

- Recognising the applicability and incidence of a statute;
- Effecting necessary deductions at the applicable rates while making payments;
- Remittance of amounts deducted to the respective authorities in the proper form and within due dates;
- Informing/providing certificate to the deductee on whose behalf the deduction was made;
- Filing the appropriate returns to the authorities in e-form or manual form as applicable within the due dates;
- Getting the assessments, if applicable, properly conducted by the authorities.

Important applicable statutes and the responsibility of the Project in relation to these statutes are given below. The responsibility for ensuring compliance will be with the accounting and procurement specialist and technically the Head of Office is responsible for the same.

Deduction of Income Tax at Source under the Income Tax Act, 1961

Payments made to contractors/suppliers/consultants and other service providers are subject to deduction of Income Tax at source under various circumstances. Table 15 shows the list of payments for which TDS is applicable, relevant conditions and the percentage of deduction. The deduction is made on the total bill amount.

Table 15: Applicability of TDS

Payment to	Condition	%
Contractors - Individuals/HUF	Single payment exceeding Rs. 30,000 or total payments in a year exceeding Rs. 75,000	1%
Contractors - Firms/Companies	Single payment exceeding Rs. 30,000 or total payments in a year exceeding Rs. 75,000	2%
Professionals	Payments exceeding Rs. 30,000 per annum	10%

Rent on plant and machinery	Payments exceeding Rs. 1,80,000 per annum	2%
Rent on land and buildings	Payments exceeding Rs. 1,80,000 per annum	10%
Employees	As per the prescribed slab rates for individuals	

Note: In all cases, tax will be deducted at 20% where the payee does not have/produce his Permanent Account Number (PAN).

Remittance of TDS has to be made on a monthly basis. The due date for TDS remittance is the 7th of the following month. In the case of the month of March, TDS will be remitted before the 30th of April. TDS returns are to be filed on a quarterly basis on or before the 15th of the month following the quarter end. In case of a quarter ending 31st March, returns will be filed before 15th May.

GST Deduction under the provision of GST

Payment towards a works contract will be made after deducting the prescribed percentage of GST. The rate of tax deduction will be the same as decided by GST council and implemented at the time of payment. Remittance of GST deducted will be made on a monthly basis. The due date for remittance is on or before of 20th of the following month. Returns will be filed on a monthly/quarterly basis within as applicable.

Labour Cess under the Building and Other Construction Workers' Welfare Cess Act, 1996

Payments towards a works contract will be made after deducting labour cess. The labour cess will be deducted at the rate of 1% of the bill amount and remitted to the government within the prescribed dates.

Note: Compliance requirements of various statutes change from time to time, as and when amendments are brought in the respective Acts and Rules. The Project agencies will keep in mind the latest position and requirements while carrying out financial transactions. The Goods and Services Tax (GST) has been introduced as on 1st July 2017. The SPCU will keep update this Manual for compliance with GST requirements as and when it becomes applicable for Project-related activities/transactions.

7 Project Financial Reporting

7.1 Project Financial Statements

Project Financial Statements(PFS) are prepared quarterly and they summarize the financial transactions under the Project for that quarter. The PFS distinctly show the sources and application of Project funds. Each IE will prepare the PFS for the quarter and submit the same to the SPCU within 10 days of the close of the quarter. The FC/CAO will be responsible for preparing and submitting the PFS, using form IFR-4.

The SPCU will prepare the Consolidated Project Financial Statement for each quarter within 15 days of the close of the quarter. The Consolidated Project Financial Statement will be prepared by the FC with the support of the FMS. The Consolidated Project Financial Statement will be prepared in form IFR-1.

The Project Financial Statements PFS-1 and PFS-2 will be subject to audit and be finally approved by the DAs and the SC respectively.

7.2 Financial Reporting

During Project implementation, various reports showing the financial progress of the Project will be prepared and submitted to the Bank, the GoUP, the Government of India and any other relevant agencies/departments. Audited Project Financial Statements including the Audit Report and IFRs will be displayed on the website of the Project/DoT as and when issued. The list of IFRs that need to be prepared are given in **Table 16**.

Table 16: Interim Financial Reports

Code	Report Title	Prepared by	Periodicity
IFR-1	Consolidated Statement of Sources and Applications of Fund	SPCU	Quarterly
IFR-2	Project Expenditure by component by agency	SPCU	Quarterly
IFR-3	Claims Reimbursement Status	SPCU	Quarterly
IFR-4	Sources and Application of Funds at IE	IE	Quarterly
IFR-5	Payment made during reporting period against prior review contracts	SPCU	Quarterly
	Trial Balance ³ and Bank Statements of IE.	IE	Monthly

The FMS of the SPCU will assist the FC in preparing the PFS and the IFRs. Similarly, the TSU Accountant will assist the FC/CAO of the IE in preparing the reports.

The templates for the IFR are given in the sub sequent pages.

³Only for IEs that maintain accounts on double entry basis.

IFR-1: Consolidated Statement of Sources and Applications of Fund

Uttar Pradesh Pro Poor Tourism Development Project				
Project Financial Statement for the period ended				
				IFR-1
Consolidated Statement of Sources and Applications of Fund				
Particulars	Annual Budget	Actual Expenditure		
		For the Quarter	Year to Date	Cumulative to Date
(1)	(2)	(3)	(4)	(5)
SOURCES OF FUNDS				
Opening Balances (A)				
Undrawn grants from Treasury				
Bank balances				
ADA				
MVDA				
Receipts				
Advance received from DoT				
ADA				
MVDA				
Other receipts/ income				
Total Receipts (B)				
Total Sources (C = A + B)				
APPLICATION OF FUNDS				
Expenditure by Component				
Component 1: Destination Planning and Governance				
Component 2: Tourist Products Development and Management				
Component 3: Support to Local Economic Development				
Component 4: Project Management				
Total Expenditure (D)				
Net Receipts/(Payments) in funds for Operations				
Advances				
Deposits				
Payables				
Others				
Total Net Receipts/(Payments) (E)				
Total Application of Funds (F = D + E)				
Closing Balances (A)				
Undrawn grants from Treasury				
Bank balances				
ADA				
MVDA				

IFR-2: Project Expenditure by component by agency

Uttar Pradesh Pro Poor Tourism Project			
			IFR-2
Project Expenditure by component by agency			
Report for the period ended _____			
Project Expenditure	SPCU/ADA/MVDA/Total		
	For the Quarter	Year to date	Cumulative to date
<u>Component 1: Destination Planning and Governance</u>			
Formulation of destination- level tourism development plans			
Support to refinement of branding and promotion strategies			
Strengthening of public, private and community institutions			
Improvement of the state visitor management and information systems			
Support to public-private dialogue			
Training of individuals and groups			
<u>Component 2: Tourist Products Development and Management</u>			
Enhancement of existing attractions and surroundings.			
Provision of interpretation and information facilities			
Development/rehabilitation and diversification of destination-level products and activities			
Provision of facilities and services for tourists and local communities			
Improvement of access to main sites, tourist products and adjacent communities			
<u>Component 3: Support to Local Economic Development</u>			
Mapping of local productive and creative industries and business development support			
Provision of training, information, tools and infrastructure			
Enhancement and/or diversification of skills.			
Branding and promotion of locally produced goods linked to tourism products.			
<u>Component 4: Project Management</u>			
Establishment and operation of SPCU and TSUs			
Project monitoring and information system			
Project communication			
Total Project Expenditure			

IFR-3: Claims Reimbursement Status

Uttar Pradesh Pro Poor Tourism Project		IFR-3
Claims Reimbursement Status		
Report for the period ended _____		
Expenditure for the Quarter		
Less: ineligible expenditure, if any		
World Bank share of the above @ 70%		
Bank fund received till date		
Total Project Expenditure till date		
World Bank Share of the above @ 70%		
Excess/(Short) utilization of fund		

IFR-4: Sources and Application of Funds at IEs

Uttar Pradesh Pro Poor Tourism Project			
			IFR-4
<<Name of the Implementing Entity - separate sheet submitted for ADA and MVDA>>			
Sources and Application of Funds at IEs			
Report for the quarter _____			
Particulars	Current Quarter	Year to date	Cumulative to date
Opening Balance			
Bank balance			
Receipts			
Advance received from DoT			
Other receipts/income			
TOTAL RECEIPTS			
Expenditure by Components			
<u>Component 1: Destination Planning and Governance</u>			
Formulation of destination- level tourism development plans			
Support to refinement of branding and promotion strategies			
Strengthening of public, private and community institutions			
Improvement of the state visitor management and information systems			
Support to public-private dialogue			
Training of individuals and groups			
<u>Component 2: Tourist Products Development and Management</u>			
Enhancement of existing attractions and surroundings.			
Provision of interpretation and information facilities			
Development/rehabilitation and diversification of destination-level products and activities			
Provision of facilities and services for tourists and local communities			
Improvement of access to main sites, tourist products and adjacent communities			
<u>Component 3: Support to Local Economic Development</u>			
Mapping of local productive and creative industries and business development support			
Provision of training, information, tools and infrastructure			
Enhancement and/or diversification of skills.			
Branding and promotion of locally produced goods linked to tourism products.			

Component 4: Project Management			
Establishment and operation of SPCU and TSUs			
Project monitoring and information system			
Project communication			
Total Project Expenditure			
Cash inflow/(Outflow) towards current assets & current liabilities			
<>			
<>			
<>			
Total			
CLOSING BALANCE			
Bank balance			
<p>Note:</p> <ol style="list-style-type: none"> 1) Subsequent releases of Project funds from DoT to the Implementing Entities will be made based on this report 2) This report must be accompanied with the necessary documents supporting the Project expenditure. 3) This report must be accompanied by the Trial Balance and Bank Statements of the DA for the same period. Any differences between the amounts in the Trial Balance and this report must be clearly explained. 			

IFR-5: Payment made during reporting period against prior review contracts

Uttar Pradesh Pro Poor Tourism Project						
Payment made during reporting period against contracts subject to Associations' prior review						IFR-5
Report for the quarter _____						
Contract Number	Supplier/ Contractor Name	Contract Date	Contract Amount	Date of WB no objection to contract	Amount paid to supplier during period	WB share of Amount paid during the period
Total						

8 Internal Control

8.1 Approach to Internal Controls

Internal control measures for the Project have been designed based on the fact that multiple and diverse implementing entities are involved. Internal control mechanisms at Project and implementation levels will include the following:

- Establishing appropriate budgeting systems.
- Regular monitoring of actual expenditure with budgets.
- Monitoring of physical and financial progress.
- Establishing procedures and systems for ensuring standard internal controls such as checking of expenditures, appropriate documentation, levels of authorization, bifurcation of duties, periodic reconciliations, and physical verification.

At various levels in the Project, the following minimal records need to be maintained along with the suggested actions to achieve internal controls as envisaged:

1. Maintaining basic day-to-day transactions on a regular basis in separate registers and books of accounts as prescribed in this Manual.
2. Generating Trial Balance, Reconciliation Statements, Project Financial Statements, etc.
3. Comparing actual expenditure with the annual budget allocations, Project components and sub-components.
4. Periodical review and/or internal audit of the Bank Reconciliation Statement and Assets Registers.
5. Ensuring Bank Reconciliation by:
 - a. Obtaining bank statement from the bank within 5 days after the close of the month.
 - b. Reconciling the closing balance appearing in bank statement with that shown in the Bank Book by preparing the Bank Reconciliation Statement (BRS). BRS will be checked and signed by an official authorized to do so.

8.2 Specific Measures for Internal Controls

Apart from the general approach to internal controls, certain specific controls have been identified. The officials working for the Project at various levels need to enforce the process of all general and specific internal controls in a diligent manner. Specific controls include:

1. Capacity building: Prima facie, clarity on the processes and their adherence increases proper conduct of various activities. Thus, strong capacity building support has been provided in the form of an SPCU and TSUs and regular training initiatives under the Project.
2. Physical supervision and control: In order to increase the physical supervision and control, the SPCU will have a presence both in Lucknow and in the IEs (in the form of TSUs). Senior fiduciary staff as well as support staff will be available to help the IEs in their day-to-day operations.

3. **Internal audit:** Regular internal audits will review transactions and processes on a sample basis.
4. **Asset verification:** A system of annual physical verification of assets procured using Project funds at subproject sites will be established. Verification of assets could be included as part of the internal audit function.
5. **Separate bank accounts:** Wherever the Treasury system is not operating and bank accounts need to be operated by the IEs (e.g., the DAs), a separate bank account will be opened for the purpose of the Project. While preparing the IFRs, a proper reconciliation statement with respect to the Project bank account will be prepared.
6. **Expenditure tracking control:** In order to track Project expenditure, to understand the contract-wise expenditure incurred, and to enable identification of various contract-related documents, etc., a contract code is created. This will be a 10-digit alpha-numeric code consisting of:

Digit	Type	Sample	Details
1	Numeric	1	Component 1
2	Numeric	1	Subcomponent 1
6 – 7	Numeric	01	Sub-project number
3-5	Alpha	ADA	The DoT as well as each IE is given an alphabetic code consisting of three alpha digits. For instance – DOT, MVDA, ADA, and so on.
8 – 10	Numeric	01	Package/contract running number for a particular office

A code 1-1-DOT-01-001 will indicate an item of expenditure taking place for component 1, sub-component 1, at SPCU, sub-project 01, and contract 001. Hence 11DOT01001 will be first contract number, the second contract number will be 11DOT01002, and so on. For contracts managed at the IE level, the IEs will accordingly maintain their contracts. ADA's second contract in component 2, sub-component 3, first sub-project will be 23ADA01002.

In this way, the last given contract number represents the number of contracts at a particular IE.

9 Audit

9.1 Statutory Audit

The CAG of India through its office in UP will be the statutory auditor for the DoT. The CAG will conduct an annual audit of DoT as per a Terms of Reference that has been agreed with the CAG for all Bank projects in India.

Similarly, a firm of Chartered Accountants will be hired by the DoT to audit the project activities at the Development Authorities, as per a specific ToR and following pre-defined selection criteria

The audit reports will be submitted to the Bank within nine months (i.e. December 31st) of the close of each financial year (31st March), and the reports will be displayed on the DoT/IE/Project website.

The DoT/IEs will review the audit findings to ensure that necessary corrective actions, including the timely settlement of observations/disallowances, have been taken.

The audit report to be monitored in the Bank's systems is given in Table 17.

Table 17: Audit reports to be monitored under Bank's systems

Audit Report	Implementing Agency	Due Date
DoT Audit Report issued by the CAG	DoT (implementing agency)	December 31
DAs Audit Report issued by Chartered Accountant	Development Authorities (implementing entities)	December 31

The FC at the SPCU along with the support of the FMS and the accounting staff at the SPCU will provide all the support and information required for the audit of DoT. The FC will take the necessary steps to get all the required information for the audit from the TSUs and the IEs.

Attachment-1 provides the detailed procedure for appointment of the auditor, audit reporting, etc.

9.2 Internal Audit

As mentioned in **Chapter 9 on Internal Controls**, the Project also envisages internal audit. Internal audit will be done by firms of Chartered Accountants who are eligible to conduct audit of the accounts of the Project. Internal audit may be conducted on a semi-annual basis covering the DoT and all the implementing entities.

The objective of this internal audit is to ensure controls in various accounting and financial processes. Discrepancies or gaps, if any, will be resolved promptly, ensuring

smooth implementation of the Project. Qualification of the auditors and the terms of reference for audit will be subject to review of the Bank.

The Bank will review action taken by the DoT/IEs on audit findings during Project supervision.

Attachment-2 provides the detailed procedure for selection and appointment of the Internal Auditor. Audit reporting, including the terms of reference for the internal auditor are given in **Attachment-3**.

Attachment 1: TOR for Audit of Financial Statements

Uttar Pradesh Pro Poor Tourism Development Project

TERMS OF REFERENCE FOR AUDIT OF FINANCIAL STATEMENTS⁴

BACKGROUND

The Department of Tourism, Government of Uttar Pradesh (GoUP) is implementing the **Uttar Pradesh Pro-Poor Tourism Development Project**, supported by the World Bank.

The Project development objective is to increase tourism-related benefits for local communities in targeted destinations. The project will assist the Government of Uttar Pradesh to restructure its tourism sector in a pro-poor manner by (i) improving destination planning and governance, (ii) developing and rehabilitating tourist products and their surroundings, and (iii) supporting local economic development. The Project is expected to inform policymakers in other states while responding to the Indian Ministry of Tourism's request for a demonstration project on pro-poor tourism policies and investments.

PROJECT COMPONENTS

Component 1: Destination Planning and Governance, covering:

- Formulation of destination-level tourism development plans for selected destinations
- Support to the refinement of branding and promotion strategies for target destinations.
- Strengthening of public, private and community institutions involved in the tourism sector for coordinated destination management.
- The improvement of the state visitor information systems
- Support to public-private dialogue.
- Training of individuals and groups employed in the tourism sector.

Component 2: Tourist Products Development and Management, covering:

- The enhancement of existing attractions and their surroundings.
- The provision of interpretation and information at monuments and sites of interest
- The rehabilitation and diversification of destination-level products and activities.
- The provision of facilities and services for tourists and local communities alike.
- The improvement of access to main sites and tourist products and their adjacent communities.

⁴Terms of Reference for CAG Audit of World Bank Assisted Projects in India, as circulated by the Department of Economic Affairs, Ministry of Finance' O.M. No. 17/7/2006-F.II dated the 20th March, 2009, which are reproduced in the following pages, will be adhered to.

Component 3: Support to Local Economic Development, covering:

- e) Mapping of local productive and creative industries and support to business development and tourism service providers.
- f) The provision of training, information, tools and infrastructure for business development, production and marketing within the tourism value chain.
- g) Enhancement and/or diversification of skills.
- h) Branding and promotion of locally produced goods linked to tourism products.

Component 4: Project Management, covering:

- The establishment and operation of a State Project Coordination Unit (SPCU) in Lucknow and Technical Support Units (TSU) in selected destinations.
- Project monitoring and information system.
- Project communication.

Institutional and Implementation Arrangements:

Based on standard practice in Uttar Pradesh for externally aided projects, the following units, committees and individuals will be responsible for Project implementation:

1. Empowered Committee (EC) at the state level chaired by the Chief Secretary, GoUP, providing high-level policy advice and support to inter-departmental coordination at state level;
2. Steering Committee (SC), chaired by the Principal Secretary of Tourism/Chief Project Director, coordinated by the Project Director (PD) and comprising the Principal Secretaries (or respective nominees) of key departments for the Project, providing administrative guidance and quality assurance for all documents and complex decisions coming from the SPCU to be reviewed by the EC;
3. Chief Project Director (CPD), the Secretary of Tourism, responsible for taking all necessary actions to ensure that the Project meets its development objectives in a timely and high-quality manner.
4. Additional Chief Project Director (ACPD), supporting the CPD in exercising all his functions and performing all functions delegated to him by the CPD and approved by the Bank.
5. Project Director (PD), in charge of the day-to-day Project implementation.
6. State Project Coordination Unit (SPCU), headed by the Principal Secretary of Tourism/Chief Project Director and comprising competitively selected specialists, supporting the DoT in the Project's overall implementation.
7. Implementation Entities (IE), consisting of existing Development Agencies (DA) in selected destinations, supported by TSUs housed in the DAs and by the SPCU in Lucknow.
8. Technical Support Units (TSU), consisting of specialists hired from a range of fields, support the Development Authorities at the destination level through on-the-job technical support and training.

Financial Management Arrangements:

Breakdown of Project costs, Project fund flow arrangements, financial powers for expenditure approval and payment approval, Project accounting structure, functions of accounts personnel, disbursement and release procedures, submission of interim financial reports, Project financial statements, internal control and audit, and other aspects related to finance, accounts and audit are covered in detail in the Project Financial Management Manual.

OBJECTIVE

The objective of the World Bank Audit Policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of World Bank financing were used for the purposes intended,⁴ that the annual Project Financial Statements (PFS) 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 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 loan agreement. In addition, the auditor will express a professional opinion as to whether the Interim Financial Reports (IFRs) submitted by Project management may be relied upon to support any applications for withdrawal.

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, namely the DoT(SPCU), and the implementing entities, namely the DAs, supported by TSUs.

STANDARDS

The audit will be carried out in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General (CAG) 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 purpose other than as defined in the legal agreement remains with the borrower, the Audit should be planned so as to have reasonable expectation of detecting material misstatements in the Project financial statements.

⁴ The Bank's charter [Article III Section V (b) of IBRD's Articles of Agreement and Article V Section 1(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."

SCOPE

In conducting the audit, special attention should be paid to the following:

- 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 loan agreement, the Project Appraisal Document, the Minutes of Negotiations and any Memoranda of Understanding;
- Counterpart funds have been provided and used in accordance with the legal agreements and only for the purposes for which they were provided;
- All necessary supporting documents, records, and accounts have been kept in respect of all Project transactions including expenditures reported via IFRs. Clear linkages should exist between the books of account and IFRs presented to the Bank;
- The Project accounts have been prepared in accordance with consistently applied government accounting standards⁵ 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 Statement (PFS) are specific to the sector, the Project design, and the type of implementing entity. The 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 **Annex-1** for an example of a Statement of Sources and Application 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 includes reconciliation between expenditure reported as per the Statement of Sources and Applications of Funds and expenditure claimed from the World Bank through IFR based method of reimbursement. An example is shown at **Annex-2**.
- (c) Management Assertion: Management should sign the Project financial statements and provide a written acknowledgement of its responsibility for the preparation and fair presentation of the financial statements and an assertion that Project funds have been expended in accordance with the intended purposes as reflected in the financial statements.

Interim Financial 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. 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 CAG 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 in adverse or a disclaimer of opinion. In addition, the audit opinion paragraph will specify whether, in the auditor 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 agreement. A sample audit report wording for an unqualified audit opinion is shown at **Annex-4**. Relevant CAG auditing standards are reproduced in **Annex-5**.

The Bank should receive the PFSs and the audit report 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 DoT.

The audit report will be issued without prejudice to CAG 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 PFS, the auditor may prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination. Where a management letter is prepared by the auditor, a copy of the same will be supplied to the Bank. Else, a written advice may be made that no management letter was prepared together with the audit report on the PFSs.

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, 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. The Project staff will provide both documents to the auditor.

Annex 1: Example of Source and Application of Funds**EXAMPLE OF A STATEMENT OF SOURCES AND APPLICATION OF FUNDS**

Uttar Pradesh Pro-Poor Tourism Project
Credit/ No.
Statement of Sources and Applications of Funds
Report for the year ended _____

Particulars	In Rs. Lakh		
	Current Year	Previous Year	Project to date
Opening Balance (A)			
Receipts			
Funds from government through budget (these will include external assistance received by government for the Project)			
Funds received directly by Project implementing agency through external assistance			
Total Receipts (B)			
Total Sources (C = A + B)			
Expenditures by Component			
Component 1			
Component 2			
Component 3			
Component 4			
Total Expenditures (D)			
Closing Balance, (C-D)			

Notes:

- a) This financial statement is prepared on a cash basis of accounting as per provisions of the financial rules and codes applicable.
- b) The above figures will be based on monthly/quarterly abstract accounts prepared by the accounts compiling officers, duly reconciled by the respective DDO's with details of UN reconciled amounts to be furnished.
- c) Names of accounting units whose financial statements are aggregated to prepare the consolidated accounts.
- d) Any other specific Note.

Annex 2: Sample Reconciliation to Total Application of Funds**SAMPLE RECONCILIATION OF CLAIMS TO TOTAL APPLICATIONS OF FUNDS**

Uttar Pradesh Pro-Poor Tourism Project
Credit No.
Reconciliation of Claims to Total Applications of Funds
Report for the year ended _____

Details	Schedule	Amt (Rs. Lakh)		
		Current Year	Previous Year	Project to date
Bank funds claimed during the year (A)	I			
Total expenditure made during the year (B)				
Less: Outstanding bills (C)	II			
Ineligible expenditures (D)	III			
Expenditures not claimed (E)	IV			
Total eligible expenditures claimed (F)=(B)-(C)-(D)-(E)				
World Bank share @ x% of (F) above (G)				

FC/CAO

Project Director

Date

Date

Notes:

- a) Total expenditure made during the year (B above) must be the same as the total expenditure shown on the statement of sources and application of funds (D on the statement of sources and applications of funds)
- b) Outstanding AC bills (C above) reflect funds drawn against AC bill that have been booked as expenditure but not settled by the end of the year (i.e. 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.
- c) Expenditures not claimed (E above) may reflect timing differences for eligible expenditures incurred during the year but claimed after the year end.
- d) Amounts A and G above must be equal.

Annex 3: Example of Management Assertion Letter**EXAMPLE OF A MANAGEMENT ASSERTION LETTER⁵**

(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 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 loan 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.
- Procurement has been done as per the agreed procedures for the Project and we have made all the procurement related documents available for audit
- 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 Loan 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)

⁵ 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

Annex 4: Sample Audit Report**SAMPLE AUDIT REPORT—UNQUALIFIED OPINION****Auditor's Report:**Addressee⁶**Report on the Project Financial Statements:**

We have audited the accompanying financial statements of the _____ Project financed under World Bank Loan No. _____ / IDA, which compose the Statement of Sources and Application of funds and the Reconciliation of Claims to Total Applications of Funds⁵ 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 application of funds of _____ Project for the year ended _____ in accordance with Government of India Accounting Standards⁷.

In addition, in our opinion, (a) with respect to IFRs, 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 agreement. During the audit, IFRs (period and amount to be indicated) and the connected documents were examined and these can be relied upon to support reimbursement under the Financing Agreement.

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

[Auditor's Signature]

[Auditor's Address]

[Date⁸]

⁶ The auditor's report should be addressed to the person stipulated in the underlying Financing Agreement as responsible for providing audited Project financial statements.

⁷ Until the Ministry of Finance prescribes adoption of the accounting standards pronounced by GASAB or other body such as IRSAS. The accounting standards followed by the government of the shall be the cash basis of accounting applied with the regard to the General Financial Rules, PWD codes, Treasury codes and similar financial rules and codes at are in effect and applicable to the operations of the Project.

Annex 5: CAG Auditing Standards (Guidelines)

Excerpt from CAG Auditing Standards (2nd Edition, 2002) Chapter IV, Reporting Standards

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

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

- **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.
- **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).
- **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.
- **Completeness:** Opinions should be appended to and published with the financial statements to which they relate. Out 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, possible including confidential or sensitive material in a separate, unpublished report.
- **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.
- **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.
- **Legal basis:** Audit opinions and reports should identify the legislation or other authority providing for the audit.
- **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.

⁸ The report should be dated as of the date on 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.

- **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.

An audit opinion is normally in a standard format, relating to the financial statements as a whole thus avoiding the need to share at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal frame work 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.

An unqualified opinion is given when the auditor is satisfied in all material respects that:

- The financial statements have been prepared using acceptable accounting bases and policies, which have been consistently applied;
- The statements comply with statutory requirements and relevant regulations;
- The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- There is adequate disclosure of all material matters relevant to the financial statements.

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 “emphasis or 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.

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 make 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.

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.

It is customary to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Attachment 2: ToR for External Audit of Financial Statements of Development Authorities

Uttar Pradesh Pro Poor Tourism Development Project

TERMS OF REFERENCE FOR EXTERNAL AUDIT OF FINANCIAL STATEMENTS OF DEVELOPMENT AUTHORITIES

BACKGROUND

The Department of Tourism, Government of Uttar Pradesh (GoUP) is implementing the Uttar Pradesh Pro-Poor Tourism Development Project, supported by the World Bank.

The Project development objective is to increase tourism-related benefits for local communities in targeted destinations. The project will assist the Government of Uttar Pradesh to restructure its tourism sector in a pro-poor manner by (i) improving destination planning and governance, (ii) developing and rehabilitating tourist products and their surroundings, and (iii) supporting local economic development. The Project is expected to inform policymakers in other states while responding to the Indian Ministry of Tourism's request for a demonstration project on pro-poor tourism policies and investments.

PROJECT COMPONENTS

Component 1: Destination Planning and Governance, covering:

- Formulation of destination-level tourism development plans for selected destinations
- Support to the refinement of branding and promotion strategies for target destinations.
- Strengthening of public, private and community institutions involved in the tourism sector for coordinated destination management.
- The improvement of the state visitor information systems
- Support to public-private dialogue.
- Training of individuals and groups employed in the tourism sector.

Component 2: Tourist Products Development and Management, covering:

- The enhancement of existing attractions and their surroundings.
- The provision of interpretation and information at monuments and sites of interest
- The rehabilitation and diversification of destination-level products and activities.
- The provision of facilities and services for tourists and local communities alike.
- The improvement of access to main sites and tourist products and their adjacent communities.

Component 3: Support to Local Economic Development, covering:

- i) Mapping of local productive and creative industries and support to business development and tourism service providers.
- j) The provision of training, information, tools and infrastructure for business development, production and marketing within the tourism value chain.
- k) Enhancement and/or diversification of skills.
- l) Branding and promotion of locally produced goods linked to tourism products.

Component 4: Project Management, covering:

- The establishment and operation of a State Project Coordination Unit (SPCU) in Lucknow and Technical Support Units (TSU) in selected destinations.
- Project monitoring and information system.
- Project communication.

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

Based on standard practice in Uttar Pradesh for externally aided projects, the following units, committees and individuals will be responsible for Project implementation:

1. Empowered Committee (EC) at the state level chaired by the Chief Secretary, GoUP, providing high-level policy advice and support to inter-departmental coordination at state level;
2. Steering Committee (SC), chaired by the Principal Secretary of Tourism/Chief Project Director, coordinated by the Project Director (PD) and comprising the Principal Secretaries (or respective nominees) of key departments for the Project, providing administrative guidance and quality assurance for all documents and complex decisions coming from the SPCU to be reviewed by the EC;
3. Chief Project Director (CPD), the Secretary of Tourism, responsible for taking all necessary actions to ensure that the Project meets its development objectives in a timely and high-quality manner.
4. Additional Chief Project Director (ACPD), supporting the CPD in exercising all his functions and performing all functions delegated to him by the CPD and approved by the Bank.
5. Project Director (PD), in charge of the day-to-day Project implementation.
6. State Project Coordination Unit (SPCU), headed by the Principal Secretary of Tourism/Chief Project Director and comprising competitively selected specialists, supporting the DoT in the Project's overall implementation.
7. Implementation Entities (IE), consisting of existing Development Agencies (DA) in selected destinations, supported by TSUs housed in the DAs and by the SPCU in Lucknow.
8. Technical Support Units (TSU), consisting of specialists hired from a range of fields, support the Development Authorities at the destination level through on-the-job technical support and training.

FINANCIAL MANAGEMENT ARRANGEMENTS

Breakdown of Project costs, Project fund flow arrangements, financial powers for expenditure approval and payment approval, Project accounting structure, functions of accounts personnel, disbursement and release procedures, submission of interim financial reports, Project financial statements, internal control and audit, and other aspects related to finance, accounts and audit are covered in detail in the Project Financial Management Manual.

OBJECTIVE

SPCU desires to appoint an independent firm of Chartered Accountants to conduct the audit of the Project Financial Statements for both the Development Authorities - ADA and MVDA under the following Terms of Reference. The audit will cover the period <<State the period of audit>> including the retroactive financing period. Project books and records are maintained at each of the Development Authorities.

Audit Objective

The Bank's Charter [Article III Section V (b) of IBRD's Articles of Agreement and Article V Section 1(g) of IDA's Articles of Agreement] specify that: "The Bank shall make arrangements to ensure that the proceeds of any credit/loan are used only for the purposes for which the credit/loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations". The essence of the Bank's audit policy is to ensure that the Bank receives adequate independent, professional audit assurance that the proceeds of the credit/loan were used for the purposes intended, that the PFS are free from material misstatement, and the terms of the legal agreements were complied with in all material respects.

The overall objective of the audit of the Project Financial Statements is to enable the auditor to express a professional opinion as to whether:

- a) Project expenditure during the period under audit has been correctly reported in the IFRs;
- b) the Project is in compliance with the financial covenants of the legal agreement;
- c) the Project funds were utilized for the purposes for which they were provided;
- d) Expenditures shown in the IFRs are eligible for financing under the relevant legal agreements and no other sources of funds have been received by ADA and MVDA for incurring these expenditures;
- e) IFRs submitted by the Project management can be relied upon to support applications for withdrawal of the Credit, and adequate supporting documentation has been maintained to support these claims;
- f) Procurement carried by ADA and MVDA is in line with the agreed Bank guidelines and procedures;
- g) the Project has an adequate internal control system;
- h) the books of account that provide the basis for preparation of the financial statements and the underlying procedures and controls are well established and properly maintained and can be relied upon to reflect accurately the financial transactions and performance of the Project.

AUDITING STANDARDS

The audit will be carried out in accordance with the Standards of Auditing promulgated by the Institute of Chartered Accountants of India (ICAI). The auditor should accordingly consider materiality when planning and performing the audit to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the primary responsibility for preventing irregularity and fraud, or ensuring that the Loan proceeds are used for purposes as required in the legal agreements remains with the Management, the auditor should specifically consider the risk of material misstatements in the financial statements resulting from fraud, while planning and performing the audit procedures and evaluating and reporting the results thereof.

Audit Scope

- a) The audit will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit of Project Financial Statements, special attention shall be paid to the following:
- b) All external funds have been used (including procurement of services) in accordance with the conditions of the legal agreements with due attention to economy and efficiency, and only for the purposes for which the financing was provided⁹.
- c) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, for the purposes for which they were provided.
- d) Expenditure reported through IFRs and claimed through withdrawal applications rendered under the Project are eligible within the legal agreements, and the extent to which the IFRs can be relied upon as a basis for reimbursement. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be specifically reported by the auditor.
- e) All necessary supporting documents, records, and accounts have been kept in respect of all Project transactions including procurement and expenditures reported via the IFRs. Clear linkages exist between the books of account and the IFRs.
- f) Procurement has been carried out by the Project in line with the agreed procedures. For this purpose, the auditor will select a sample of procurement cases under the Project (other than cases that were under Prior Review of the Bank) and check procurement documents so as to ascertain the robustness of procurement system. The auditor will describe the sampling methodology that they have followed, in the Management Letter. Additionally, the auditor will

⁹ Relevant guiding documents include the Financing Agreement between the IDA and India; the Implementing Entity Agreement between IDA and State of Bihar; Project Appraisal Document, Disbursement Letter and Minutes of Negotiations.

review the complaints related to procurement, if any, and mention how these were addressed/the action taken.

Reasonable physical verification of the assets under construction (or already constructed), as may be deemed necessary, should be conducted by the auditor. The auditor should also peruse the technical reports with a view to review the observations with likely financial observations, review their resolution and assess the impact of unresolved observations on the PFS.

- g) Review the Internal Audit reports of ADA and MVDA, consider the key internal audit observations (including systemic and recurrent which impact Project implementation), particularly those related to the Project or which impact Project implementation including the adequacy of their resolution. The auditor will ascertain the likely impact of the pending internal audit observations on the Project. Likewise, the auditor will take into account the observations made by the CAG of India and Local Fund Auditor of GoUP, if any, and the World Bank in the Aide Memoir/s.
- h) Review the adequacy of the contract management procedures including (a) internal controls in respect of verification/ approval of claims/bills for consulting services including timeliness of payments; (b) compliance with the terms and conditions of the contract agreement; (c) maintenance of documents and accounting.
- i) Review the adequacy and maintenance of accounting and internal control systems underlying the Project throughout the audit period.
- j) Review the adequacy of governance mechanisms within the organization such as meetings of the Governing Body and Executive Committee, approvals of contracts as applicable in relation to the implementation of the project, and report on any material observation.

FINANCIAL REPORTING FRAMEWORK

1. The Project Financial Statements will comprise of the Interim Unaudited Financial report (IFR) for the period ending March of the year under audit and include the statements mentioned below. The format of the IFR is provided in the Disbursement and Financial Information Letter issued by the Bank. The PFS will be signed by the authorized officials of ADA and MVDA.
 - Sources and Application of Funds at IE (separate for ADA and MVDA) referred as IFR-4
 - Payment made during reporting period against prior review contracts referred as IFR-5
 - Explanatory Notes to the financial statements including the basis for preparation of the PFS
2. ADA and MVDA will provide a separate Management Assertion Letter for the Project financial statement. This will include 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.

AUDIT REPORT

The auditors will prepare an audit report on the PFS of ADA and MVDA, in accordance with the Standards of Auditing promulgated by ICAI (as applicable). Those standards require a clear written expression of opinion on whether the financial statements give a true and fair view relating to the financial statements taken as a whole.

Project Audit Report - The auditors will provide a primary opinion (true and fair view) on the PFS, and in addition provide their professional opinion on whether -

- the Project funds were utilized for the purpose for which they were intended and expenditure reported through IFRs and claimed through withdrawal applications rendered under the Project are eligible within the legal agreements;
- Proper books of accounts have been maintained and Project expenditure reported in the IFR is in agreement with the books of accounts;
- IFRs submitted during the period under audit are supported by adequate detailed documentation maintained in ADA and MVDA's offices to support claims to the World Bank for reimbursement of expenditure incurred;
- the accounting, and internal control systems underlying the project and oversight over the Project funds were adequate and maintained throughout the audit period; and
- Procurements made by ADA and MVDA under the project had been undertaken in accordance with agreed procedures.

MANAGEMENT LETTER FROM AUDITOR

The auditor will prepare and submit along with the audit report/s, a Management Letter separate for the Project. The Management Letter will elaborate the findings of the audit and contain recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination. The Management Letter would include matters such as the following (indicative only):

- a) Observations on deficiencies/weakness on the accounting records, systems, and controls that were examined during the audit and management's response to these together with specific recommendations for improvement.
- b) Any identified internal control weaknesses related to the procurement process such as, over the bidding, evaluation and contract management domains
- c) Elaboration of the audit qualifications, if any, made in the audit report;
- d) Degree of compliance of the financial covenants in the financing agreements.
- e) Communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project.
- f) Adequacy of FM staffing.

- g) Adequacy of compliance with previous audit findings/recommendations in the Audit Report/Management Letter and status of any issues which remain to be addressed and any issues which recurred.
- h) Bring to the Management's attention any matter(s) that might have a significant impact on the implementation of the project or that the auditor considers necessary and pertinent.
- i) Describe the sampling methodology followed in audit.

The Management Letter should contain an Executive Summary including a table of observations and audit recommendations along with response of the Management and a timeline for completing the action/s recommended.

TIMELINE FOR SUBMISSION OF AUDIT REPORTS

The audits will be conducted in a timely manner so that the audited Project Financial Statements and audit report along with the Management Letter are submitted to the World Bank by 31st December i. e. within 9 months of the close of the financial year. The audited financial statements will be disclosed on the website of the ADA, MVDA and the Bank.

SUGGESTED TEAM COMPOSITION

The audit team will comprise, at the minimum, the following personnel who would be evaluated-

S. No.	Key Professionals	Description of services to be provided	Qualification and experience	No. of persons	Total expected man days
1	Engagement Partner and Team Leader	Overall coordination and planning, team leadership, reporting, liaison with client.	Qualified Chartered Accountant. Minimum 10 years' post qualification experience as practicing Chartered Accountant and minimum 5 years continuously with the firm.	1	
2.	Audit Team Manager	Responsibility to lead the audit teams in the field, planning and execution of audit, discussion with unit heads and sub-implementing agencies and report writing and finalization.	Qualified Chartered Accountant. Minimum 5 years of post-qualification experience and minimum three years continuously with the firm.	2	

S. No.	Key Professionals	Description of services to be provided	Qualification and experience	No. of persons	Total expected man days
3	Audit team Seniors	Audit (including field work) at ADA and MVDA and preparing reports for the Audit Manager.	C. A. (Inter) with at least two years' post training experience in accounting, audit and report writing.	4	
Total expected man days					

GENERAL

The auditor will be given access to all Project related books, records, reports and information relevant for the purposes of conducting the audit. The information made available to the auditor will include, but not be limited to, Program Appraisal Document, relevant Legal Agreements, World Bank's procurement guidelines and Bank's Disbursement Manual etc. Most of the information would be available on the World Bank Website. Copies of these documents would also be available with ADA and MVDA. ADA and MVDA management/staff will be available for discussions with the auditors and suitable infrastructure will be provided to the auditor to conduct the audit.

Annex 1: Indicative Format for Program Financial Statements

Uttar Pradesh Pro Poor Tourism Project		
<<Name of the Implementing Entity - separate sheet submitted for ADA and MVDA>>		
Report for the year ended _____		
Particulars	Current Year	Previous Year
Opening Balance		
Bank balance		
Receipts		
Advance received from DoT		
Other receipts/income		
TOTAL RECEIPTS		
Expenditure by Components		
<i>Component 1: Destination Planning and Governance</i>		
Formulation of destination- level tourism development plans		
Support to refinement of branding and promotion strategies		
Strengthening of public, private and community institutions		
Improvement of the state visitor management and information systems		
Support to public-private dialogue		
Training of individuals and groups		
<i>Component 2: Tourist Products Development and Management</i>		
Enhancement of existing attractions and surroundings.		
Provision of interpretation and information facilities		
Development/rehabilitation and diversification of destination-level products and activities		
Provision of facilities and services for tourists and local communities		
Improvement of access to main sites, tourist products and adjacent communities		
<i>Component 3: Support to Local Economic Development</i>		
Mapping of local productive and creative industries and business development support		
Provision of training, information, tools and infrastructure		
Enhancement and/or diversification of skills.		
Branding and promotion of locally produced goods linked to tourism products.		
<i>Component 4: Project Management</i>		
Establishment and operation of SPCU and TSUs		

Project monitoring and information system		
Project communication		
Total Project Expenditure		
Cash inflow/(Outflow) towards current assets & current liabilities		
<>		
<>		
<>		
Total		
CLOSING BALANCE		
Bank balance		

Annex 2: Tool for Post Reviews of Contracts

<i>Date of Audit:</i>	<i>Name of District / State Implementing Agency:</i>
<i>Procurement Officer's Name:</i>	<i>Designation:</i>
<i>Contact Telephone No.....</i>	<i>email:</i>
<i>Contact Address:</i>	
<i>Contract No. and Date:38/2010/A2</i>	<i>Contract Amount:</i>
<i>Contractor/Supplier's Name and Address:</i>	
<i>Description of the Item Goods / Services / Works:</i>	

PROCUREMENT METHOD: Open tender / Limited quotation comparison / other.....

<i>Aspects</i>	<i>Comments and Findings</i>
Advertisement required ..Yes/ No Advertisement issued for bids	Date of Advertisement: Medium/Newspapers Used ____
Quotation Call Letter issued to firms and the number of firms to whom sent	Date of Issue: No of Firms :
Method of collection of quotations	
Time allowed for submission of quotations	No. of days:
Number of quotations received	No.:
For verification (not evaluation) of the quotations please attach complete copies of all quotations received with covering offer letters	Please attach copies of all quotations received for this contract or record the prices quoted and the names of the bidders as per the quotation evaluation report.
Quotation evaluation report and date; comments, if any	Review completeness and comment on the selection recommendation
Whether cost estimate was originally prepared?	If yes, value
Whether final award price compares well with estimate	
Were negotiations were held on any aspect of the quotation	If yes, review the minutes and record key elements on which negotiations were held
Signed Contract / Purchase Order document	Verify correctness, validity, etc.
Work Progress/Completion Reports	Verify availability and comment on contents
Actual Completion Date	
Timeliness of Payments	Invoice No:Date received: Date paid:Amount
Compliance with State Government regulations	

Annex 3: Suggested Format of a Management Assertion Letter

(On ADA and MVDA Letterhead respectively)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the Project Financial Statement (PFS) of under Credit No. implemented through ADA/ MVDA (choose applicable entity) for the year ended on _____ for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the sources and uses of funds and of the expenditure for the year then ended. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the basis of accounting followed by us, 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.
- The proceeds of the Credit provided by the World Bank have been used only for the purposes for which they were granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.
- Project expenditures are eligible for financing under the Financing 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.
- Procurement has been done as per the agreed procedures.
- We have made available to you all books of account and supporting documentation relating to the project.
- We have made available to you all procurement documents relating to the project.
- All complaints received and subsequent correspondence thereof has been made available.
- <<Any other significant and material matter>>
- The project has complied with the conditions of all relevant legal documents of the World Bank, including the Financing Agreement, Implementing Entity Agreement, the Minutes of Negotiations and Disbursement Letter and also the Project Appraisal Document.

Authorized Signatory

Authorized Signatory

Attachment 3: Selection Procedure for Internal Auditors

SELECTION PROCEDURE FOR INTERNAL AUDITORS

1. Hiring of auditors will be conducted based on transparent criteria and using a competitive selection process. The selection process will be handled by a Committee.
2. Auditors will be initially hired for 1 year extendable for another 2 years based on their satisfactory performance. After completion of 3 years fresh procurement process will be initiated.
3. Auditors will be selected by 1st April of the financial year i.e. before start of the financial year for which the auditor will conduct the audit.
4. The process of selection of auditors will be subject to prior review of the Bank. (a) The firm must be empanelled with CAG, without which the application of the firm would not be considered. (b) The expression of interest (EoI) will be evaluated as per pre-agreed criteria that may include size of the firm, independence, and relevant experience (c) proposals to be evaluated as per pre-agreed criteria that may include team composition, work experience, evaluation of proposal.

Attachment 4: TOR for Internal Auditors

TERMS OF REFERENCE FOR INTERNAL AUDITOR

Position:	Internal Auditor
Organization:
Duty Station:
Duration:	Initially for 1 year (further extension for 2 years based on performance)

BACKGROUND

The Department of Tourism, Government of Uttar Pradesh (GoUP) is implementing the Uttar Pradesh Pro-Poor Tourism Development Project, supported by the World Bank.

The Project development objective is to increase tourism-related benefits for local communities in targeted destinations. The project will assist the Government of Uttar Pradesh to restructure its tourism sector in a pro-poor manner by (i) improving destination planning and governance, (ii) developing and rehabilitating tourist products and their surroundings, and (iii) supporting local economic development. The Project is expected to inform policymakers in other states while responding to the Indian Ministry of Tourism's request for a demonstration project on pro-poor tourism policies and investments.

PROJECT COMPONENTS

Component 1: Destination Planning and Governance, covering:

- Formulation of destination-level tourism development plans for selected destinations
- Support to the refinement of branding and promotion strategies for target destinations.
- Strengthening of public, private and community institutions involved in the tourism sector for coordinated destination management.
- The improvement of the state visitor information systems
- Support to public-private dialogue.
- Training of individuals and groups employed in the tourism sector.

Component 2: Tourist Products Development and Management, covering:

- The enhancement of existing attractions and their surroundings.
- The provision of interpretation and information at monuments and sites of interest
- The rehabilitation and diversification of destination-level products and activities.
- The provision of facilities and services for tourists and local communities alike.
- The improvement of access to main sites and tourist products and their adjacent communities.

Component 3: Support to Local Economic Development, covering:

- m) Mapping of local productive and creative industries and support to business development and tourism service providers.
- n) The provision of training, information, tools and infrastructure for business development, production and marketing within the tourism value chain.
- o) Enhancement and/or diversification of skills.
- p) Branding and promotion of locally produced goods linked to tourism products.

Component 4: Project Management, covering:

- The establishment and operation of a State Project Coordination Unit (SPCU) in Lucknow and Technical Support Units (TSU) in selected destinations.
- Project monitoring and information system.
- Project communication.

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

Based on standard practice in Uttar Pradesh for externally aided projects, the following units, committees and individuals will be responsible for Project implementation:

9. Empowered Committee (EC) at the state level chaired by the Chief Secretary, GoUP, providing high-level policy advice and support to inter-departmental coordination at state level;
10. Steering Committee (SC), chaired by the Principal Secretary of Tourism/Chief Project Director, coordinated by the Project Director (PD) and comprising the Principal Secretaries (or respective nominees) of key departments for the Project, providing administrative guidance and quality assurance for all documents and complex decisions coming from the SPCU to be reviewed by the EC;
11. Chief Project Director (CPD), the Secretary of Tourism, responsible for taking all necessary actions to ensure that the Project meets its development objectives in a timely and high-quality manner.
12. Additional Chief Project Director (ACPD), supporting the CPD in exercising all his functions and performing all functions delegated to him by the CPD and approved by the Bank.
13. Project Director (PD), in charge of the day-to-day Project implementation.
14. State Project Coordination Unit (SPCU), headed by the Principal Secretary of Tourism/Chief Project Director and comprising competitively selected specialists, supporting the DoT in the Project's overall implementation.
15. Implementation Entities (IE), consisting of existing Development Agencies (DA) in selected destinations, supported by TSUs housed in the DAs and by the SPCU in Lucknow.
16. Technical Support Units (TSU), consisting of specialists hired from a range of fields, support the Development Authorities at the destination level through on-the-job technical support and training.

FINANCIAL MANAGEMENT ARRANGEMENTS

Breakdown of Project costs, Project fund flow arrangements, financial powers for expenditure approval and payment approval, Project accounting structure, functions of accounts personnel, disbursement and release procedures, submission of interim financial reports, Project financial statements, internal control and audit, and other aspects related to finance, accounts and audit are covered in detail in the Project Financial Management Manual.

OBJECTIVE

The objectives of internal audit are as follows:

- To evaluate adequacy of internal control system
- To ensure compliance of laid down policies and procedures as documented in Financial Management Manual of the Project.

Internal audit provides Project management with timely information and recommendations on financial management aspects to enable the taking of corrective actions, wherever necessary, in due time.

As laid down in Project Appraisal Document (PAD), the SPCU has to appoint Internal Auditors for the Project to perform audit on a semi-annual basis at the UPPPTDP-SPCU, and the IEs.

SCOPE

The overall scope of Internal Audit will include:

- (i) To enable the auditor to confirm compliance with Financial Management Guidelines laid down for the Project.
- (ii) To provide SPCU with timely and real time information on financial management aspects of the Project, including internal controls, compliance with financing agreements and institutes/areas in need for improvement and to enable follow-up action. This will involve regular and frequent visits to SPCU/TSU to check adherence with internal control requirements.

The audit will cover the entire Project i.e., covering all sources and application of funds for the Project, as considered necessary for the audit. The audit would also cover all consultancies or other contracts that may be entered into by the implementing agencies (SPCU/IEs). Specific areas of coverage of audit will include the following:

Financial Transactions:

Internal audit should be conducted on a semi-annual basis. It should be carried out in accordance with the Internal Auditing Standards of Institute of Chartered Accountants of India, and will include such substantive and control tests as the Internal Auditor considers necessary under the circumstances.

The internal auditor will conduct an assessment of the adequacy of the Project Financial Management system, including internal controls. This would include aspects such as:

- a) Whether appropriate controls as specified by the Project Financial Management Manual (PFM), Project Appraisal Document (PAD), General Financial Rules (GFRs), Project Implementation Plan (PIP) and other relevant central/state government notifications are operating satisfactorily. The auditor should suggest methods for improving weak controls or creating them where these controls do not exist.
- b) That proper books of account as laid down in the Financial Management Manual and adequate documentation is being maintained for timely and accurate reporting for Project activities.
- c) An assessment of compliance with provisions of the financing agreements and Project Agreements.
- d) That an adequate system is in place to ensure that goods, works and services are being procured in accordance with the procurement procedures prescribed for the Project. The audit should report by exception any such cases found where these guidelines are not followed.
- e) That an appropriate system of accounting and financial reporting exists, on the basis of which claims are prepared and submitted for reimbursement.
- f) Adequate records are maintained regarding assets created and assets acquired by the Project, including details of cost, identification and location of assets.
- g) Checking adherence to financial management aspects of Disclosure Management requirement of the Project by implementing agencies.
- h) Verifying compliance with the recommendation of the internal audit report of the previous period (s) and provide comments thereon.

TIMING AND COVERAGE

Internal audit will be carried out on a semi-annual basis and will include implementing entities. The Internal Auditor will submit an Audit Schedule in advance to SPCU and agree the schedule with the SPCU.

REPORTING

In addition to a detailed internal audit report, the auditor should provide an **Executive Summary** highlighting critical issues, which require the attention of the SPCU and the status of action on the previous recommendations.

PERIOD OF APPOINTMENT

The auditor would be appointed for a period of 1 year beginning 1st April 2018 and cover the Financial Year ending on March 31st 2019. The contract may be extended to another two years based on the performance of the auditor.

GENERAL

The auditor should be given access to all legal documents, correspondence, Books of Accounts, Project Financial Management Manual (PFM), Project Appraisal Document

(PAD), Project Financing Agreement, Government Orders and Office Orders and any other information associated with the Project and as deemed necessary by the Auditor.

Annex to Internal Audit ToR

SUGGESTED FORMAT OF INTERNAL AUDIT REPORT

Part A: Brief details of the Auditee and Audit

- a. Name and address of the Auditee :
- b. Names of Office bearers :
- c. Name/s of Audit Team Members :
- d. Days of audit :
- e. Period covered in the previous audit :
- f. Period covered in the current audit :

Part B: Executive Summary

The Executive Summary should normally cover the following items:-

- a) Objectives of audit
- b) Methodology of audit
- c) Status of implementation of the financial management system
- d) Status of compliance of previous audit reports, including major audit observations pending compliance
- e) Key areas of weaknesses that need improvement, classified into the following areas:
 - i. Disallowance of expenditure as per the World Bank rules
 - ii. Procedural Lapse
 - iii. Accounting Lapse
 - iv. Accounting books and records not maintained.
- f) Recommendations for improvements

Executive Summary to include the following format:

Para No.	Observations	Implications with risks involved	Recommendations for improvement	Auditee's Comments/ Agreed Action	Agreed Timeline for compliance

Part C: Compliance to previous Audit Reports

In this part, provide status of compliance with previous reports and detail pending audit observations. The views of the auditee should also be mentioned. In case there is any difficulty or problem in resolution of audit findings, these should be clearly highlighted.

Part D: Serious Observations

In this part, provide details of serious audit observations, such as ineligible expenses, major lapses in internal controls, systemic weaknesses, procurement procedures not followed, incorrect information submitted for reimbursements, difference between cash drawn and expenditure reported, procedural lapse, accounting lapse, accounting books and records not maintained, etc.

Part E: Other Observations

Observations that are not serious in nature, but nonetheless require the attention of the Project should be detailed in this part.

Part F: Executive Summary and Suggestions/Recommendations:

Provide an Executive Summary of the observations mentioned in Part C and D along with suggestions/recommendations. Provide specific recommendations on internal control and systemic weaknesses. In addition to audit reports, the auditor will provide a report to Project Management highlighting findings during the period under review. This will be in the form of a **Consolidated Management Letter**, which will inter-alia include:

- i. Comments and observations on the financial management records, systems and controls that were examined during the review.
- ii. Deficiencies and areas of weaknesses in systems and controls and recommendation for their improvement.
- iii. Compliance with covenants in the financing agreement and comments, if any, on internal and external matters affecting such compliance.
- iv. Matters that have come to attention during the review and might have a significant impact on the implementation of the Project.
- v. Any special review procedures required of a compliance nature (for example, compliance of procurement procedures and procedure for selection of consultants etc., recommended by the World Bank).
- vi. Any other matters that the auditor considers pertinent.