

Terms of Reference for
Statutory Audit of Project Financial Statements of States
Skills Strengthening for Industrial Value Enhancement (STRIVE)

Background

Skills Strengthening for Industrial Value Enhancement (STRIVE) is a national Project of the Ministry of Skill Development and Entrepreneurship (MSDE) to incentivize critical institutional reforms in the formal ITI and apprenticeship training system aimed towards supporting the Government's commitment to develop a globally competitive workforce and to provide skilling opportunities for economically disadvantaged and underserved communities. The Project is scheduled to run over five years from 2017-18 to November 2022 and is an Externally Aided Plan (EAP) supported by the World Bank.

At the national level, long-term skills development is coordinated by the Directorate General of Training (DGT) in the Ministry of Skill Development and Entrepreneurship (MSDE). Apprenticeship training is managed under the aegis of the MSDE. The designated trades are to be managed by DGT and the optional trades by MSDE through National Skill Development Corporation (NSDC). ITIs are under State Governments, which own, run, supervise and fund Government ITIs. Private ITIs are owned by Societies / Trusts /private individuals.

STRIVE Project towards its implementation has set up a National Project Implementation Unit (NPIU) under DGT, consisting of government staff that is an integrated unit of the MSDE and is in charge of managing all major reform projects in the space of long-term training in India. The responsibility to coordinate and facilitate the implementation of STRIVE and provide overall fiduciary guidance at the ministerial level rests with National Project Implementation Unit (NPIU). Similarly, at the state level, State Project Implementation Units (SPIUs) set up under Vocational Training Improvement Program (VTIP), and would be continued under STRIVE Project, will be responsible for providing fiduciary guidance, implementation, monitoring, and facilitation of STRIVE. The project will be monitored by the National Steering Committee (NSC) and by State Steering Committees (SSCs), which prepare semi-annual progress reports. Under STRIVE, the NPIU and SPIUs will therefore be supported through a dedicated PMC at national and state level directly funded through the STRIVE's Technical Assistance (TA) and Technical Support (TS) respectively. For Industry Clusters (ICs), the State Apprenticeship Monitoring Committee (SAMC) will be the nodal point for selection, evaluation and monitoring of ICs. The SAMC exists within SPIU but liaises with SPIU and SSC for all matters related to ICs. The PMC is a consultancy team at NPIU and SPIU comprising key experts in project management, M&E, skills development, and apprenticeship training.

The objective of STRIVE is to improve the quality and market relevance of vocational training provided in ITIs and apprenticeships. The STRIVE Project is effective from February 8, 2018.

Funding Pattern

The estimated cost of the national STRIVE project is INR 2,200 crores (US\$318 million) over five years. The proposed World Bank Operation comprises INR 830 crores (US\$120 million) project using the Program for Results (PforR) instrument and INR 35 crore (US\$5 million) TA Project using the Investment Project Financing (IPF) instrument.

Performance Based Funding

STRIVE is a Performance Based funding – Program for Results (PforR) instrument. The use of PforR instrument is particularly suited to achieving the Government of India's (GoI) results-based objectives, as it allows for improvement of the Systems and Institutions that are critical to the implementation of the GoI project. The instrument will ensure a sharp focus on the most important results the GoI wants to achieve (that is, improve relevance and efficiency of vocational training), allow for flexibility in the end use of funds by states and training institutions, support the development of state-level capacities to manage ITIs more effectively, incentivize introduction of performance-based management principles, and strengthen output and outcome monitoring.

Result areas

To achieve this objective, the Project is divided into four result areas:

1. Improved Performance of ITIs

Performance-based grant funding to selected government and private ITIs to improve institutional performance by deepening industry linkages, improving courses in line with market needs, better targeting marginalized groups including women, Scheduled Castes (SCs) and Scheduled Tribes (STs), developing capacities of teaching staff and broadening employment promotion activities.

2. Increased Capacities of State Governments to support ITIs and Apprenticeship Training

Performance-based grants to state governments to improve state structures for the management and support of ITIs and apprenticeship training, for evaluation and monitoring and for developing teaching resources; and to improve the regulatory environment for ITI operations.

3. Improved Teaching and Learning

Investment in the development of modern, technology-supported teaching and learning resources for (i) Craftsmen Training Scheme (CTS) and apprenticeship training programs, and (ii) pre-and in-service trainers' training programs, as well as upgrading selected technical trainer training institutes, such as National Skill Training Institutes (NSTIs)

4. Improved and Broadened Apprenticeship Training

Grant funding for Industry Apprenticeship Initiatives (IAIs) carried out by industry clusters to strengthen industry initiatives, increase the participation of SMEs in apprenticeship training, and improve the quality of apprenticeship training programs.

Proposed Implementation/ Funds Flow Arrangements

The DGT will be provided the budget for the Project and will further pass on the funds to the States and Union Territories implementing the project. These funds will be transferred to the State Treasury through PFMS.

ITI Principals / IMCs are designated as drawing and disbursal officers and draw funds from designated Society STRIVE Account for payments through State Societies.

Each office which makes payments is required to maintain separate Bank Accounts and separate Books of Accounts and records as per the State government procedure.

Fund Flow procedures – Result area Wise

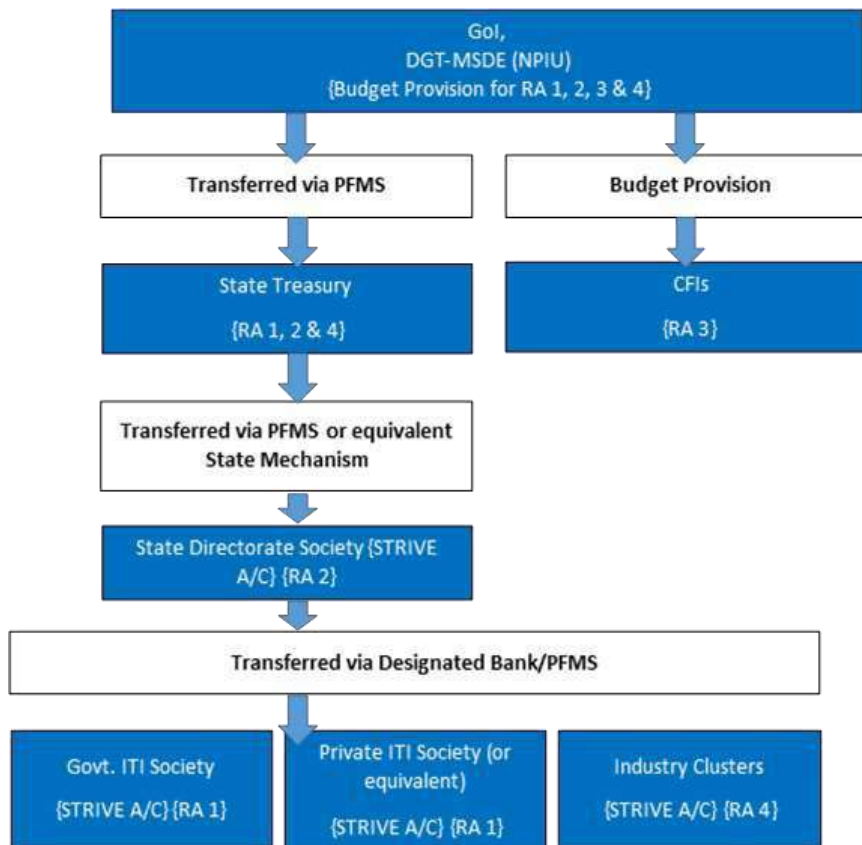
Result area-1: The funds would flow as Budget provided to MSDE, GoI to State Treasury to State Society STRIVE Project Bank Account (opened for STRIVE) to Government and Private ITI STRIVE Project Bank account (opened for STRIVE in name of Institute Management Committee (IMC) (or equivalent)). Thus, **Result area 1** funds will be directed from State Treasury to Government/Private ITIs STRIVE Bank Accounts via SPIU Bank Account.

Result area-2: The funds would flow as Budget provided to MSDE, GoI to State Treasury to State Society STRIVE Project Bank Account

Result area-3: Funds will be provided in the budget through the Demand for Grants for the Financial Year

Result area-4: Central MSDE Treasury → State Treasury → Department Concerned dealing with Apprenticeship (on the recommendation of SAMC → Industry Cluster (IC).

Fund flow procedure (as above) explained diagrammatically below



FINANCIAL AUDIT

Objective

The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the effectiveness of the overall financial, operational and procurement management position of STRIVE at the end of each fiscal year and of the funds received and expenditures for the accounting period ended (Fiscal years starting from April 1, 2018 up to the project closing date), as reported by the PFS, as well as an opinion on the eligibility of the Statement of Expenditures (SoE) and Financial Monitoring Reports (FMRs) submitted under the project. It shall be ensured that the overall financial management and the arrangements including internal controls are carried out as documented as per the Operations Manual.

The project books of account provide the basis for preparation of the PFS by the Project Implementation Agency and are established to reflect the financial transaction in respect of the project, as maintained by the project implementation agencies.

In addition, the audit shall advise the management about proper utilization of funds, including the possibility of any fraud and corruption in the project.

Scope

The audit will be carried out in accordance with the standards of audit of the Comptroller and Auditor General of India, and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention should be paid to the following:

- Project funds are used in accordance with the relevant agreements with States, UTs, Govt. ITIs, Private ITIs, Central Institutes and Industry Clusters hereinafter called 'Implementation Agencies' with due attention to economy and efficiency, and only for the purposes for which they were provided as per fund/grant and Project Operations manual.
- With regard to procurement of Goods, Works and Services by various implementing agencies under STRIVE, external auditor will verify compliance with applicable rules as per the Operations Manual, verifying the action taken on evidence of fraud and corruption if any, award of any contract to a firm appearing on Bank's list of sanctioned firms, number of procurement related complaints received and time taken in disposal of each such complaint, and verifying that no contracts excluded from the Program have been awarded. Review of funds with NPIU and SPIU for onward transfer to Implementation Agencies to ensure proper allocation and timely release of such funds
- All necessary supporting documents, records, and accounts have been kept in respect of all project ventures including expenditures reported via SOEs / FMRs. Clear linkages should exist between the books of account and reports presented to the Ministry and/or to the Bank;
- The project accounts have been prepared in accordance with consistently applied Indian Government Accounting Standards in this respect and give a true and fair view of the financial situation of the project at the year end and of resources and expenditures for the year ended on that date.
- To review that the funds are spent in the manner by which Individual linked KPIs within the four project result areas are being achieved.
- Sample check the Utilization Certificates for ITIs/ICs/CFIs (as stated in Project Operations Manuals) based on which funds have been released. Private sector ITIs to submit UCs as per General Financial Rules (GFR) 2017 and its amendments from time to time.
- Review and consider the consolidated Internal Auditor's comments on the Project over the audit period in question before forming their opinion on the state of affairs of the Project. These comments should be incorporated, if necessary, after discussions with SPIUs and the respective Internal Auditors.
- The scope covers Closure Audit of Project also.

Note:

The above scope of work is for CAG. However, for other external auditors selected within the project, especially for State Societies under STRIVE, would have the similar scope of work as stated above relevant to them.

Project Financial Statements

The Project Financial Statements submitted by NPIU and SPIU should include:

- A Summary of Funds received Result area-wise by NPIU and SPIUs

- A Summary of Expenditures shown under the main project result areas/ activities/ headings and by main categories of expenditures, both for the current fiscal year and accumulated to date; and
- A Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the project, and liabilities, if any. If the Beneficiary under the project can not maintain a Balance Sheet on account of its existing accounting system, the PFS of such Beneficiary should include in the form of a statement (Statement in lieu of Balance Sheet) at the end of every financial year (a) unspent bank balance of the project (b) category-wise assets purchased by the beneficiary from project funds with date of such purchase along with its location (c) project related unpaid bills/liabilities as at year end

As an annex to the Project Financial Statements, the auditor should audit a reconciliation statement (prepared by the project) between the amounts shown as "*received by the project from GoI*" and that shown as being disbursed by the States to Implementation Agencies. As part of that reconciliation, the mechanism for the disbursement for each category of Beneficiary under the four Project Result areas should also be indicated.

Statements of Expenditures/ Financial Monitoring Reports (Relevant for TA component)

In addition to the audit of the PFS, the auditor is required to audit all SoEs used as the basis for the submission of withdrawal applications from NPIU/SPIUs. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These expenditures should be carefully compared for expenditure eligibility with the individual Result area-wise operations manuals read with the relevant financing agreements for each Beneficiary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. Annexed to the PFS should be a schedule listing individual SOE/ FMR withdrawal applications by Result area Wise with specific reference number and amount.

Audit Opinion

Besides a primary opinion on the PFS, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures under PforR instrument under established KPIs for each result area under the Project

The financial statements, including the audit report, should be received by the Implementing Agency (NPIU) no later than six months after the end of the accounting period to which the audit refers. The auditor should submit the two copies of the audited accounts and audit reports to the Implementing Agency.

Auditor's comments

In addition to the other areas, the auditor will also comment on:

- observations on the accounting records, systems, and controls that were examined during the course of the audit;
- identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;

- report on the degree of the compliance of the financial covenants on the financing agreements;
- report on the degree of the compliance of the procurement procedures and norms
- communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project; and bring to the borrower's attention any other matters that the auditors considers pertinent.
- to what extent have the KPIs been actually achieved which has resulted in releases from GoI to all the Project Result area Beneficiaries
- utilization certificates provided by Implementation Agencies are generally in order in keeping with the spirit of Result Area-wise Operations Manual
- observations on the consolidated internal auditor's comments on the Project

General

The auditor should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor.