### National Dairy Support Project (Credit No.5074 IN)

**Annex 1 - Checklist for Financial Management Review by Project External Auditors**

**Name of the End Implementing Agency:** Punjab Livestock Development Board  
**Date of Audit Review/Visit:** 9th September, 2016 to 16th September, 2016  
**Amount Disbursed till 31-03-2016 (in million):**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Description of Sub Project</th>
<th>Date of Sanction by PSC</th>
<th>Sanctioned Amount (in million)</th>
<th>Amount Disbursed till 31-03-2016 (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthening of Semen Station - Nabha</td>
<td>18-Dec-12</td>
<td>140.27</td>
<td>111.50</td>
</tr>
<tr>
<td>2</td>
<td>Pedigree Selection - Nili Ravi</td>
<td>14-Jun-14</td>
<td>66.83</td>
<td>9.50</td>
</tr>
<tr>
<td>3</td>
<td>Pedigree Selection - Sahiwal</td>
<td>19-Jan-15</td>
<td>40.22</td>
<td>3.80</td>
</tr>
<tr>
<td>4</td>
<td>Progeny Testing - Patiala</td>
<td>18-Dec-12</td>
<td>186.52</td>
<td>41.60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Observation / Suggestions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sub Project appraisal included assessment of End Implementing Agency's (EIA) Financial Management (FM) arrangements through FM checklist. Yes / No / NA Observations / Suggestions SS PS - NR PS - S PT</td>
</tr>
<tr>
<td>2</td>
<td>In case of weaknesses identified, a time lined action plan has been agreed between PMU and the EIA and reflected in the Sanction Letter/Grant Agreement. NA NA NA NA</td>
</tr>
<tr>
<td>3</td>
<td>The criteria as given in the PIP have been applied by PMU in assessing the eligibility of the EIA and adequate documentation is available evidencing such appraisal. Yes Yes Yes Yes</td>
</tr>
<tr>
<td>4</td>
<td>The EIA has raised/brought in their contribution as stipulated in the Grant Agreement. NA NA NA NA</td>
</tr>
<tr>
<td>5</td>
<td>The project bank account is duly reconciled and exceptional entries have been followed up. Yes Yes Refer MLP#2 Refer MLP#2 Yes</td>
</tr>
<tr>
<td>6</td>
<td>Project transactions are recorded in the books of the EIA under separate account heads reflecting at least the expenditure items in the Grant Agreement. No No No No</td>
</tr>
<tr>
<td>7</td>
<td>The FUCs submitted by the EIA to PMU is in conformity with the books of the EIA. Refer MLP#3 Refer MLP#3 Refer MLP#3 No Refer MLP#3 Yes</td>
</tr>
<tr>
<td>8</td>
<td>The expenditure reported in the FUC is duly evidenced by adequate supporting documentation evidencing receipt of goods/services, approved as per the EIAs delegation of powers and payments made are as per the contractual obligations. Yes Yes Yes Yes</td>
</tr>
<tr>
<td>9</td>
<td>Assets created under the project have been recorded in the asset records of the EIA and physically verified. No Refer MLP#1 No Refer MLP#1 No Refer MLP#1 Physical verification of assets acquired under sub-projects has not been performed.</td>
</tr>
<tr>
<td>10</td>
<td>The FUC has been reviewed and approved by PMU and the sub project expenditure has been recorded in the books of PMU (as grouped for reporting) under appropriate account heads. Yes Yes Yes Yes</td>
</tr>
</tbody>
</table>

For Deloitte Haskins & Sells LLP  
Chartered Accountants  
Kartikeya Raval  
Partner  
Ahmedabad, January 2, 2017
National Dairy Plan – Phase I  
Name of Implementing Agency ~ Punjab Livestock Development Board

1. Physical verification of capital assets acquired under sub-project  

**Observation:**

We observed that the physical verification of assets created under sub-projects to ensure the existence of recorded assets was not performed by internal auditors of EIA during the year ended on 31st March, 2016 as required by Para 6.3.3 of FMH and Para 9.5.4 of Project Implementation Plan (PIP). We had issued similar observation in previous year to which below response was provided:

"PLDB will arrange for regular internal physical verification of the capital assets procured under different sub-projects of NDP I".

However, we have not been provided with any physical verification report during the course of audit procedures in current year.

**Implication:**

Capital expenditure is one of the major elements in implementation of Project and benefits of the project can be achieved over a period of time by following guidelines/framework as prescribed for implementation of project. Project will be implemented through the assets acquired for project and appropriate and timely use of it will yield the results for implementation of project. Also, it is one of the requirements that the project funds get utilized in accordance with the condition of the agreement. In case of non-adherence to such conditions, there will be breach of the agreement.

This increases the risk of assets being lost or stolen and not being detected for a prolonged period of time, not existing in a location where they are thought to be and related expenses being charged to an incorrect cost centre, or incorrect or inaccurate asset listings going undetected. In turn, benefits of project implementation will not yield any results i.e. productivity enhancement or expansion of village based milk procurement system.

**Recommendations:**

- Compliance with FMH ensures efficient compliance of accounting and internal control systems, timely alarm of financial problems, establishment of accountability and responsibility, compliance of applicable governing rules and laws, proper forecasting and budgeting and establishment of internal control system including internal audit:
  - Only with the Physical verification of capital assets at regular interval and appropriate identification and tagging of the capital assets, it can be traced in future. Considering the project will get implemented over a period of time, it is utmost important to have physical verification and tagging.
  - It is a requirement of para 9.5.4 of Project Implementation Plan to have the physical verification carried out by the Internal auditors once in every year.

Management Letter Points for the year ended 31st March, 2016  
Deloitte Haskin & Sells LLP  
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Physical verification of fixed assets is an important procedure which assures existence and active usage of assets acquired under NDP I and is even specifically mentioned in FMH.

We suggest that EIAs should adequately adhere to the guidelines set under FMH for physical verification of assets acquired and keep appropriate records of such verification. PMU shall insist on the internal auditors report on project assets at regular interval i.e. once in a year where there is substantial capital expenditure and if physical verification of assets is not included in Internal Auditors' report then it shall be included in their scope.

We also recommend that EIA shall adhere to the requirement of tagging of fixed assets in compliance of the guidelines of FMH. Appropriate Tagging of fixed assets for various sub-projects can give better controls over the assets acquired for project. In addition, para 6.3.3 of FMH also indicates that each asset shall be assigned a distinct identification number and appropriate details of such assets should be maintained in an Asset Register. Absence of proper tags may lead to double counting while conducting the physical verification of assets as well as in reconciling the assets items with the fixed assets register.

Management Response:
2. **Review of Bank Reconciliation Statement**

**Significant**

**Observation:**

During course of audit of FUC at EIA, we have observed that the EIA prepares its bank reconciliation statements every month for the purpose of its internal reporting. While auditing we observed that, Bank Reconciliation Statements were not reviewed and signed by the authorised person for FY 2015-16.

We also reported similar observation in previous year, to which EIA replied as under:

"As suggested by representatives from Deloitte Haskins & Sells LLP from the financial year 2015-16, we are preparing bank reconciliation along with FUC. As per your suggestion, now Bank Reconciliation Statement is prepared after duly verified by a Senior Executive, Accounts of PLDB."

However, we observed that the corrective actions are not fully implemented and hence we are continuing with our reporting.

**Implication:**

BRS prepared by one accounts officer, if not reviewed by another individual, leaves chances of mistake in the document. This might lead to reporting of expenditure in incorrect accounting period which leads to ultimate misstatement in Project Financial Statements prepared by PMU.

**Recommendation:**

Bank Reconciliation should be reviewed by the Finance Manager of sub-project or his senior, such that appropriate maker-checker system is established in the EIA.

**Management Response:**

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Management Letter Points for the year ended 31st March, 2016

Deloitte Haskin & Sells LLP

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3. Periodical reconciliation of unutilized amount as per FUC and books of account

Observation:

While auditing signed certified Fund utilisation certificate ('FUC'), we observed differences between the FUC and books of account. Although the differences noted were not significant but a process should be implemented to ensure that the same are reconciled at the period end.

<table>
<thead>
<tr>
<th></th>
<th>PS - Nili Ravi</th>
<th>PS - Sahiwal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure as per Bank Ledger (from inception till 31.03.2016)</td>
<td>5.65</td>
<td>2.91</td>
</tr>
<tr>
<td>Total expenditure as per FUC</td>
<td>5.92</td>
<td>2.59</td>
</tr>
<tr>
<td>Difference</td>
<td>(0.27)</td>
<td>0.32</td>
</tr>
</tbody>
</table>

Similar observation was reported in previous year by us to which EIA had replied that: “PLDB will generate Trial Balance of the transactions at the end of every quarter before submitting the FUCs of sub-projects.”

However, we believe that necessary corrective actions have not been taken fully and hence continued with the reporting. In addition, EIA could not provide us a reconciliation of differences observed as above.

Implication:

In absence of a procedure to timely reconcile sub-project books with the FUC, there may be cases where expenditure gets reported in inappropriate accounting period thereby leading to misstatement in PFS prepared by PMU.

Recommendation:

We recommend that at the end of every quarter before submitting FUCs to PMU, EIA should generate trial balance for sub-project transactions from accounting system and all line-items which are reported in FUC to be submitted should be agreed to such trial balance.

Management Responses:
National Dairy Plan – Phase I
Name of Implementing Agency ~ Punjab Livestock Development Board

4. Absence of Internal audit of transactions

Observation:

One of the objectives of FMH is establishment of strong internal control systems including Internal controls. Audit of post-payment internal audit brought out the weaknesses/deficiencies in the existing control environment and through light upon the management to improve such identified areas. Currently, EIA has no post-payment audit process is in place for audit of sub-project transactions and books of accounts.

We had issued similar observation in previous year to which EIA replied that:
"For both – pre and post audit of the documents of National Dairy Plan sub-projects is done by Sh. Ajay Pathak, Chartered Accountant hired by PLDB."

However, during the course of audit, we were not provided with any internal audit report which we could review. Therefore we have continued with the similar reporting.

Implication:

Absence of post-payment internal audit function within organization leads to heightened risk of control lapses, override of controls, fraud etc. remaining unnoticed and increase the chances of continuing of errors repeatedly. Also, it doesn’t give any insights to the EIA to improve their control system in absence of internal audit. Post-payment audit processes are carried out with different set of purposes and focus on different areas while carrying out the audit.

Recommendation:

We suggest that EIA should get post-payment internal audit of sub-project transactions performed along with EIA’s own transactions and a report containing Observation/remarks of internal auditors should be provided to the management.

Also, the management should consider preparing the action plan to address the points raised by the internal auditors and also consider strengthening their control system. The Management may also consider to audit of post-payment/transaction. Such points can also be raised to PMU for their review and their recommendations, which help the PMU team in reviewing the internal auditor’s observations and management action plan.

Management Response:

Management Letter Points for the year ended 31st March, 2016
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