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: Tamil Nadu Cooperative Milk Producers' Federation Limited
Date of Audit Review/Visit: 22nd to 27th August, 2016

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Description of Sub Project</th>
<th>Date of Sanction by PSC</th>
<th>Sanctioned Amount</th>
<th>Amount Disbursed till 31/03/2016 (₹ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Progeny Testing (PT)</td>
<td>13-Sep-12</td>
<td>392.83</td>
<td>126.80</td>
</tr>
<tr>
<td>2</td>
<td>Strengthening Semen Station (SSS)</td>
<td>04-Dec-14</td>
<td>143.47</td>
<td>79.00</td>
</tr>
</tbody>
</table>

Sr. No. | Particulars | Yes / No / NA | Observations / Suggestions |
<table>
<thead>
<tr>
<th></th>
<th></th>
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</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.</td>
<td>Yes</td>
<td>Yes</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.</td>
<td>NA</td>
<td>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.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>The EIA has raised/brought in their contribution as stipulated in the Grant Agreement.</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>5</td>
<td>The EIA is maintaining a separate dedicated project bank account and project transactions are routed through this account.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>The project bank account is duly reconciled and exceptional entries have been followed up.</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Refer MLP#3</td>
<td>Yes</td>
<td>Separate set of books is not being maintained for the SSS project and is accounted along with the regular account heads.</td>
</tr>
<tr>
<td>7</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.</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Refer MLP#1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>The FUCs submitted by the EIA to PMU is in conformity with the books of the EIA.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>9</td>
<td>The expenditure reported in the FUC is duly evidenced by adequate supporting documentation evidencing receipt of goods/ services, approved as per the EIA's delegation of powers and payments made are as per the contractual obligations.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>10</td>
<td>Assets created under the project have been recorded in the asset records of the EIA and physically verified.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Physical verification of fixed assets of SSS project has been performed by stock verification officer who is part of Department of Audit for Milk Cooperatives. Internal Auditors did not carry out physical verification of assets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</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.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>12</td>
<td>Based on the above review, in the auditor's opinion, there are any serious concerns in the FM systems of PMU/EIAs that may impair their capacity to provide fiduciary assurance, including reporting, on use of Project funds. If the answer to the above is yes, please elaborate these concerns.</td>
<td>No (Refer Management Letter Issued)</td>
<td>No (Refer Management Letter Issued)</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 EIA – Tamil Nadu Cooperative Milk Producers Federation Ltd.

1. **No Separate Books of Accounts maintained**

**Observation:**

As required by Para 6.2 of the Financial Management Handbook (FMH) EIA is required to maintain a separate books of accounts apart from that of the Federation. We observed that EIA has not maintained separate books of account for SSS project.

**Implication:**

Expenditure incurred / Assets acquired through National Dairy Plan I - SSS Project may be clubbed with the Tamil Nadu Milk Cooperative producer’s federation books of accounts and it becomes difficult to identify the Expenditure incurred / Assets acquired using the funds received from the PMU.

**Recommendation:**

We recommend that EIA should maintain separate Books off accounts/ Unit code for the SS Project in order to have a control over all the Expenditure incurred / assets that have been acquired through National Dairy Plan I - SS Project.

**Management Response:**

SS Project in Tamil Nadu Milk Cooperative producer’s federation is a short project which will be in existence for 3 years, and the time and resource required to maintain a separate books of accounts / Asset register is more hence no separate books of accounts/ Asset register is maintained.
National Dairy Plan – Phase I
Name of EIA – Tamil Nadu Cooperative Milk Producers Federation Ltd.

2. Inadequate Management Committee Meeting

Observation:

As per Para 11.1 of the Finance Management Handbook, the management committee meeting of EIA should be held once in every 3 months to review the progress of the Project. However, we observed the EIA has conducted only 3 management committee meetings for the year 2015-16.

Implications:

Inadequacy of number of meeting can lead to delayed implementation of the issues faced by the agencies for the purpose of achieving the objectives of sub-project and to non-compliance of FM Handbook. Also, PMU may not be aware about the problems faced by EIA in implementing the sub-project since management committee is infrequent in meeting at regular intervals.

Recommendation:

Discussion of the affairs of the projects, recommendations / suggestion and implementation of it at regular interval is very critical for the purpose of achieving the objective of NDP - I. Though we understand that the management is meeting three times in a year for the purpose of discussion of sub-project, we recommend that the management shall increase the number of meetings for the purpose of discussion of the affairs of the sub-project.

Also, meeting of governing committee of organisation at regular interval is quite essential to give direction to any organisation. We recommend that the management committee of EIA should meet once in every 3 months to review the progress of the Project as per FM Handbook guidelines.

Management Response:

The EIA has the practice of conducting committee meetings every quarter. However for the year 2015-16 only 3 meetings were held as there were no subject to be discussed.
3. Frequency of preparation of bank reconciliation statements  

**Observation:**

As per sub-para 6.3.2 of Finance Management (FM) Handbook, the EIA has to prepare monthly bank reconciliation statement (BRS) for the sub-project bank account and should be submitted along with the FUC. However, the EIA has the practice of preparing bank reconciliation statement on quarterly basis and not on monthly basis.

**Implication:**

BRS should be prepared by one accounts officer, and reviewed by another individual, on a monthly basis as indicated in FM Handbook as the same helps in monitoring project funds effectively. Absence of preparation of monthly BRS may lead to reporting of expenditure in an incorrect accounting period which leads to ultimate misstatement in Project Financial Statements prepared by PMU.

**Recommendation:**

Bank reconciliation statement should be prepared by the EIA on monthly basis and the same should be sent along with the audited FUC.

**Management Response:**

This will be implemented in future.
National Dairy Plan – Phase I
Name of EIA – Tamil Nadu Cooperative Milk Producers Federation Ltd.

4. Internal Audit Report

Observation:

As required by para 6.3.7 Internal Audit has to be performed for all the expenditure incurred by the EIA for various sub-projects managed. During the year, quarterly Internal Audit report for April 2015 to June 2015 of PT project was not made available to us for verification.

Implications:

In the absence of Internal Audit there may be cases where expenditure gets reported inappropriately thereby leading to misstatement in Project Financial Statement prepared by PMU.

Recommendation:

Expenses of EIA should be audited by the Internal Auditor every quarter and the Internal Audit report should be obtained from the internal auditors.

Management Response:

The Expenditure provided in FUC is audited by Internal Auditors and the FUC Auditors.