F.No. NAIP/Ernst/2010/Fin.

CIRCULAR

Common Observations in Internal Audit Reports (E&Y)

Dear Project Partners,

M/s Ernst & Young Ltd. have been engaged as Internal Auditors for NAIP. On examination of reports submitted by the internal auditors, it is seen that there are some common observations which can be avoided to improve the financial management of the project. Such observations and action to be taken in such cases is given below for guidance of NAIP Partner Institutions:

1. **Interest/Revenue earned not remitted to PIU:**

   As per Project guidelines, any revenue accrued in the NAIP Sub projects is to be remitted to PIU-NAIP. Therefore, all partner Institutions may remit the receipts generated in the Sub project to PIU-NAIP.

2. **Prescribed records not maintained separately:**

   As per Project guidelines, all transactions related to NAIP are to be carried out through a separate Bank account and all prescribed records are to be maintained separately. All partner Institutions may ensure that this is followed strictly. Further, these records may be kept safe for a period of 5 years after Project closure for inspection by ICAR/ World Bank authorities.

3. **No documentation of Institutional expenses:**

   Any expenditure incurred under the sub-project including ‘Institutional Charges’ is to be certified by the auditors and only then it will be eligible for reimbursement by the World Bank. Therefore, such expenditure should also be incurred through NAIP account only and original vouchers should be shown to the auditors. Transfer of funds to Institute account is not permissible.

4. **Institutional expenses claimed in excess of sanctioned limit:**

   The limit of expenditure that can be incurred under the ‘Institutional Charges’ is 10% (in case of lead centers) and 5% (in case of co-operating centres) of the actual expenditure incurred under the ‘Recurring’ subheads of Budget. Therefore, the partner Institutions
should ensure that these limits are adhered to. In case, these limits are exceeded in any particular year, the same should be counterbalanced in the following year so that expenditure under ‘Institutional Charges’ do not exceed the prescribed limits at least for the project period as a whole.

5. **Custom Duty exemption not availed:**

Procurement of Imported goods under the Project is exempt from custom duty. Partner Institutions may ensure that custom duty is not paid while procuring imported goods. If needed, partner Institutions may approach procurement wing of PIU-NAIP for assistance in the matter.

6. **World Bank documents/ procedure not followed in procurement of goods/ works:**

As per Project guidelines, World Bank prescribed documents and procedures are to be followed in procurement to be made under NAIP subprojects. Institutional procurement rules/ guidelines are not applicable. In case World Bank documents/ procedures are not followed, such procurement can be disallowed by World Bank auditors, in which case liability will be with the partner Institution.

7. **Assets Register not maintained/ Incomplete:**

Partner Institutions are required to maintain a separate assets register to keep a record of assets (Non-recurring goods) procured under NAIP sub projects. The asset so procured should be in conformity with the non-recurring items sanctioned in the sub projects and the assets shown in the Schedule-5 of Annual Accounts. All the assets should also be tagged so as to facilitate physical verification.

All Partner Institutions are requested to ensure that the above directions are fully adhered to. This will greatly help in reducing audit disallowances and consequent liability on partner Institutions.

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