

Executive Committee,
Bihar Aapda Punarwas Evam Punarnirman Society
Room No. 430, 4th Floor, Vishweshwaraya Bhawan
Bailey Road
Patna-800015

27th January, 2012

Dear Sirs,

Management Letter

Audit for the year ended 31st March 2011

We have conducted the audit of the financial statements of Bihar Kosi Flood Recovery Project of Bihar Aapda Punarwas Evam Punarnirman Society (BAPEPS) as at 31st March 2011. We familiarized ourselves with project documents, the internal guidelines and circulars applicable during this period under review. We also reviewed the business of the project and evaluated the accounting systems and related controls of the project in order to plan and perform our audit.

Our audit was conducted in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The responsibility of the management, inter alia, includes the maintenance of adequate accounting records and internal controls for safeguarding of the assets of the company and for preventing and detecting fraud or other irregularities.

In terms of "Standards on Auditing SA 265"- "Communicating deficiencies in internal control to those charged with governance and management" issued by the Institute of Chartered Accountants of India, the purpose of this letter is to communicate appropriately with those charged with governance and management deficiencies in internal control that we have identified during our audit and that in our professional judgment, are of sufficient importance and merit their respective attentions.



Our observations are as follows:

Brief description of the Project

Bihar Aapda Punarwas Evam Punarnirman Society (BAPEPS) is implementing a USD220 mn World Bank assisted **Bihar Kosi Flood Recovery Project** in three districts of Bihar i.e. Supaul, Madhepura and Saharsa. The project will support the efforts of the Government of Bihar (GoB) in helping communities recover from the impacts of the flood and reduce vulnerabilities from flood hazard of affected population. To this effect, the Project has five components which will be implemented through specialized state agencies as given below:

- Reconstruction of Houses, through the Owner Driven Reconstruction Collaborative (ODRC) Model, through the District Administration led by the District Magistrate and supported by the district / block units of BAPEPS.
- Reconstruction of Rural Roads, through the Bihar Rural Roads Development Agency (BRRDA) and reconstruction of Bridges, through the Bihar Rajya Pul Nirman Nigam (BRPNNL).
- Strengthening Flood Management Capacity, through the Water Resources Department(WRD)
- Livelihood Restoration and Enhancement is implemented by Bihar Rural Livelihood Project(BRLP)
- Improving Emergency Response Capacity, through Bihar Aapda Punarwas Evam Punarnirman Society (BAPEPS) ; and
- Project Management and Technical Assistance Bihar Aapda Punarwas Evam Punarnirman Society (BAPEPS).

A State Project Management Unit (SPMU) has been created within BAPEPS supported by District and Block PMUs in the Project area.

1. Matters that might have a significant impact on the implementation of the project

- a) Significant amount of money lying with District and Block Administrative offices should be transferred to the bank account of the project. The amount lying with the respective district and blocks are as follows:



Advance Recoverable from District Office/ Block Offices of Government of Bihar	31 st March 2011 (Rs.)
District Office	
Saharsa	7,504,307
Block Office	
Alamnagar	7,645,000
Basantpur	99,321,993
Bihariganj	6,559,972
Chausa	4,560,000
Chhatapur	137,874,633
Gwalpara	16,090,000
Kumarkhand	56,837,010
Madhepura	57,910,000
Murliganj	37,766,915
Pratapganj	8,121,026
Puraini	3,043,118
Sankarpur	35,314,624
Singheswar	10,467,739
Sonbarsa	61,880,794
Triveniganj	104,099,381
Udakisunganj	15,870,098
Total	692,283,134

- No confirmation of the amounts outstanding is available with the Society.
 - This amount needs to be reconciled and credited to the Bank Account of the Society
 - There is a substantial loss of interest on account of the float funds lying with the District/Block authorities.
- b) As on 31st March 2011, Rs 253.92 Crores is lying in the savings bank accounts of the Society As this money is not being utilized immediately, a significant portion of this money may be parked in Fixed Deposits with the bank to earn higher rates of interest.
- c) We observed that till 31st March 2011 in the following cases DPMU/ BPMU have not opened any bank account and their operations like receipt of fund, transfer of fund to beneficiaries were conducted through District Administrations' bank account. In absence of own bank account of the Society it becomes very difficult to control movement of funds



Name of Block/District
Madhepura District
• Alamnagar Block
• Chausa Block
• Gwalpara Block
• Kumarkhand Block
• Murliganj Block
• Puraini Block
• Madhepura Block
• Shankarpur Block
Saharsa District
• Sonbarsa Block

d) The installments of house reconstruction cost are transferred to the beneficiaries through bank advices. It was observed that although instructions were given to the bank to transfer the amount directly to the beneficiaries, the full amount could not be transferred as the bank account details of the beneficiaries were not proper. For example, in case of Singheswar block, Madhepura district, Rs 3, 40,000/- could not be transferred to the beneficiaries and is still lying with the bank. Further no confirmations have been received from the beneficiaries about the amount received. We suggest that a proper reconciliation be done of the amount transferred by the bank and the amount received by the beneficiaries.

e) An amount of Rs 20.71 lakhs was paid in Pratapganj block, Supaul District from the bank account of the society for non project related activity. In our opinion, such transfers are not permitted.

f) Although a substantial amount has been received and spent in the project, the posts of Deputy Director (Finance) and Finance and Accounts Manager is at present lying vacant. We suggest that the Society should take steps to fill up these two vital positions immediately.

g) Funds provided to the beneficiaries under Owner Driven Housing Reconstruction Scheme have been classified in the following three Housing Reconstruction Categories (HRC)

- HRC-1: Beneficiaries belonging to Above Poverty Line - @ Rs. 60,000 per house.



- HRC-2: Beneficiaries belonging to Below Poverty Line, who constructed their houses with assistance from Indira Awas Yojana (IAY) and whose houses were subsequently destroyed in the floods - @ Rs. 60,000 per house.
- HRC-3: Beneficiaries belonging to Below Poverty Line, whose houses were destroyed and who have not availed assistance under the IAY scheme - @ Rs. 15,000 per house (balance Rs. 45,000 coming from IAY).

Funds released under IAY under HRC-3 have not been accounted for in the project accounts.

- h) From the discussions with the management, it appears that the accounts of the Society will be maintained at the SPMU/DPMU levels. There will be no accounting setup of the society at the at the BPMU level. Manual cashbook / bank book will be maintained at the BPMU level by the block administration's personnel. There will be no accountant of the society at the block level.

We feel the proper structure of the accounting set up and standardization of the vouchers/books of account be clearly spelt out in the financial manual. The financial manual needs immediate updation.

2. Compliance with the Financial covenants in the financing arrangement

In terms of clause B(2) of Section 2 of schedule 2 to the Financing Agreement between Government of India and International Development Association(IDA) dated 12th January, 2011 "...the Recipient shall prepare and furnish to the association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports (IUFRR) for the project.....".

We observed that the IUFRR for the whole of the financial year 2010-11 has not been submitted till the date of the report.

3. Observations on the accounting records, systems and controls that were examined during the course of the audit

- a) It was observed that Tally accounting software had been installed at the district offices of the society in which the accounts of the districts are maintained. Entry in tally is done in the yearend. No accounting software is available at the block offices of the society. Accounts at the district/block offices are maintained manually throughout the year. We observed that :



However no standardized cashbook/bankbook is maintained by the Block Offices.

- Bank reconciliation statements are no prepared.
- The knowledge level of the accountants needs improvement.

- b) The Society does not have system of preparing receipts and payments vouchers.
- c) In the following locations, bank statements were not available.

Name of Block/Dist.	Status
Madhepura District	
• Kumarkhand Block	Not available
• Puraini Block	Incomplete
• Shankarpur Block	Incomplete
Supaul District	
• Basantpur Block	Incomplete

- d) Balance confirmations from the banks as on 31st March, 2011 were not available.
- e) Balance confirmation from the following parties were not available:

Name of the Party	Amount (Rs)
Bihar Rajya Pul Nirman Nigam Ltd	1,50,00,000
Bihar Rural Roads Development Agency	58,00,000

- f) It was observed that certain amounts were paid to Rajmistri and Dabia Mistri. The details of the payees to whom the amount were paid is not available

District/Block	Amount(Rs)
Saharsa	
• Sonbarsa	9,98,995
Supaul	
• Triveniganj	8,97,415
• Pratapganj	18,064
• Basantpur	72,261
Madhepura	
• Murliganj	2,23,085
• Sankarpur	2,05,376
• Kumarkhand	3,07,990



g) Deficiency or weakness in the systems and controls together with recommendations for improvement.

a) Unadjusted Advances

During the course of our audit we have come across cases where advances made are settled after long delays/have not been settled yet. The cases which came to our notice during the course of our audit are as follows:

List of Unadjusted Advances			
Name of the Office	Paid for	Amount(Rs)	Remarks
SPMU	Beltron for purchase of Computers etc	160,062	Paid on 8/2/11.Assets have not been booked as Bill not found
Madhepura District			
Singheswar Block	Lying in suspense account with the bank	340,000	The amounts could not be given to Beneficiaries. The Bank holds the amount since 08/01/11 till the date of audit
Saharsa District			
Saharsa District Office	ODRC	173,886	Paid on 25/9/2010The amount has been paid for payment of salaries to Social Workers. But the vouchers for the expenses were not submitted till 31/03/2011.
Supaul District			
Basantpur Block	Suman Kr Gupta for Videography	32,000	Paid before August, 2010.The vouchers for the expenses have not been submitted till 31/03/2011.
Chhatapur Block	Advance for Generator expenses	15,000	The vouchers for the expenses have not been submitted till 31/03/2011.
Pratapganj Block	Amount spent for other projects/ purposes	2,071,000	Amount paid does not relate to the accounts of the Society

We feel, the management should exercise greater control over the advances and ensure stricter compliance.

h) Status of maintenance of project books and records.

- a) In terms of clause 5.9 of Chapter 5 to the Financial Management Manual dated 17th July, 2010 in relation to Register of Fixed Assets states that "Society maintains Register of Fixed Assets to record the assets procured under the Project. Physical



Verification of owned Fixed Assets is done at least annually by a committee constituted by the Project Director.” However, we observed that neither register was maintained nor any physical verification was done.

- b) We observed that separate cash book was not maintained for the project. The Accounts are maintained at the Block Office along with other transactions of the block.

District	Block
Supaul	Trivenigunj Chhatapur
Madhepura	Chausa Alamnagar

i) Other areas

Statutory Compliances

- a) The Society does not have any Permanent Account Number (PAN) and Tax Deduction Number (TAN). The Society should immediately apply for these with Income Tax Authorities.
- b) The Society should also apply for registration under section 12A of Income Tax Act.

j) Status of prior audit recommendations

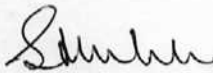
This being the first year comments on prior audit is not applicable.

The matters contained in this Management Letter are intended solely for the information of project management, for such timely consideration and action as project management may deem appropriate. They have all been considered by us in formulating the audit opinion expressed on the project financial statements in our audit report dated 27.01.12 and they do not alter the opinion expressed in that audit report.

We wish to take this opportunity to thank Project Management for the courtesies and cooperation extended to our team.

For Mookherjee Biswas & Pathak

Chartered Accountants



(S Mukherjee)
Partner



Patna