

Date: 9th
December, 2013

Trustees
Sir Dorabji Tata Trust,
Bombay House,
Fort,
Mumbai

Dear Sirs,

**Re: Audit Report of Baradron Social Welfare Institutions (BSWI), South 24
Paraganas, West Bengal**

**Basis and Methodology for conducting Financial Systems and Grant Utilization
Review at Baradron Social Welfare Institutions (BSWI), South 24 Paraganas,
West Bengal**

Sir Dorabji Tata Trust appointed us for conducting verification of utilization of Grant sanctioned to Baradron Social Welfare Institutions (BSWI), South 24 Paraganas, West Bengal. The said assignment also expected us to review various financial systems, checks and balances in place accompanied by compliance to various statutory provisions applicable to the organization. We submit details of grant sanction and methodology observed for conducting the review:

- ❖ Sir Dorabji Tata Trust sanctioned Rs. 73.39 lacs in November 2009 for the period of Three years towards “Integrated livelihood with tribal community in Gazole Block of Malda District in West Bengal”. The said grant was disbursed as contemplated in grant sanction over the period of 3 years.
- ❖ As observed, various periodical reports stipulated in grant approval related to utilization of grant and activity accomplishments etc. were submitted to SDTT for its perusal.
- ❖ We were informed by the management that grant received from SDTT was applied in villages located in Gazole Block in Malda District of West Bengal. Further accounting and other records related to grant utilization and activities carried on were maintained at the project office in Gazole block only. In view of the same, verification exercise was conducted at project office in Gazole. Further Member Secretary of BSWI along with all staff involved in program

implementation, accountant were present to furnish various records and explanations required during the review process.

The Secretary and other staff furnished books of accounts and other records related to SDTT Grant only and the same were verified in detail as stated herein below. This is to bring to your kind attention that overall books of accounts of the organization could not be verified as the same were at the head office at Baradrone. However, consolidated audited accounts and records related to statutory compliances made available during review process were verified prior to drawing various observations submitted herein below.

Records verified:

- ❖ Books of Accounts related to SDTT grant receipts and payments.
- ❖ Evidences supporting receipts and payments, Incomes and Expenditures
- ❖ Bank pass books
- ❖ Periodical Grant Utilizations submitted to Trust including various communications related to grant utilization, program accomplishments exchanged between SDTT and BSWI.
- ❖ Various Constituting and Registration Documents
- ❖ Audited accounts for Previous Years (March 2010, 2011, 2012 & 2013).
- ❖ Annual Reports.
- ❖ Other records found necessary to facilitate our verification in consonance with TOR assigned.

We verified various records, financial and otherwise in detail and discussed our observations in detail with the Member Secretary also called the project-holder, accountant, and other staff members bearing responsibility of accounting and program implementation. We had an elaborate discussion with them on the working at grass root level, challenges faced and remedial actions taken to overcome the same. We appreciate openness on their part to accept lapses, lacunas, and gaps in the accounting and financial system and willingness expressed to comply with audit observations and overcome the same on priority. We submit our observations herein below for your perusal and necessary action.

1. EXECUTIVE SUMMARY:

Various aspects verified during the above said process were rated as Satisfactory, Partly Satisfactory (Needs Improvement), Not Satisfactory and Not Applicable and

are color coded as described at the end of the table summarized here in below. For convenience, paragraph reference of the detailed report is also stated.

Aspects Covered (Audit Areas covered as per the TOR)	Detailed Report Para Reference	Rating *
Budgeting and Planning	4.1	
Review of accounting system and internal controls regarding:	4.2	
Maintenance of Books of accounts	4.2.1	
Cash and Bank transactions	4.2.2	
Management of Advances	4.2.3	
Stock and Fixed Asset Management	4.2.4	
Approval Process and Delegation of Powers	4.2.5	
Asset Procurement Policy	4.2.6	
Investment Policy	4.2.7	
Human Resource Management	4.2.8	
Audits	4.2.9	
Project Monitoring and System of Reporting	4.3	
Statutory Compliances	4.4	
Utilization of Previous Grant	4.5	
Compliance to Grant Terms and Conditions	4.6	

* **Colour Coding Glossary:**

<u>SATISFACTORY</u>	<u>PARTLY SATISFACTORY (NEEDS IMPROVEMENT)</u>	<u>NOT SATISFACTORY</u>	<u>NOT APPLICABLE</u>
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2. AIMS, OBJECTIVES, ACTIVITIES, MANAGEMENT, FINANCE AND REGISTRATION DETAILS OF BSWI:

BSWI was established in 1961 as non-profit and voluntary organization and started a Village Text-Book Library. It was registered as a Society in 1976 with a vision to accelerate social and economic change in rural areas under the West Bengal Societies Registration Act XXVI of 1961 having aims and objectives as stated herein below:

Aims and Objectives to work in the areas of:

- ❖ Education with an emphasis on the improvement of elementary education system.
- ❖ Livelihood intervention with an emphasis on the economic empowerment of women.
- ❖ Preventive and Promotional Health for arresting CMRs, UFRs, MMRs and promotion of good reproductive health practices.
- ❖ To have self sustainable livelihood means for marginalised and poorer people having more emphasis on tribal communities.

Activities at BSWI:

To achieve above said aims and objectives it was engaged in various activities stated herein below:

- ❖ Run bridge education centre and Village Library so as to make children sustain in schools and reduce drop-out.
- ❖ To conduct health awareness programs and run health clinic along with referral service to patients requiring intensive care in Government Hospitals
- ❖ Livelihood intervention programs having two components viz. On-Farm and Off-Farm. These activities include on farm trainings for better agricultural practices, land and water management and to set group based non-agriculture enterprises. The said activity was also aimed to create awareness about development of alternative means of livelihood viz. animal rearing, poultry farming, fishery, production of items from local natural resources available.

Activities carried on with SDTT Grant Support:

- ❖ To provide improved agriculture practices by providing training on SRI, improved seeds, pesticides, development of vegetable and horticulture plots etc.
- ❖ To provide assistance for creation of water resources, introduction of changing crop system and help farmers to have better land and water management systems.
- ❖ To provide alternative means of livelihoods in the form of providing infrastructure and other resources to have goat rearing, poultry farming, fishery etc. activities.

Registration Details:

It was registered under various statutes and regulatory provisions as stated herein below:

- ❖ As a Society in 1976 under the West Bengal Societies Registration Act XXVI of 1961.
- ❖ Under Section 12 A of the Income Tax Act w. e. f. Assessment year 1994-95.
- ❖ Under Section 80 G (V) (VI) of the Income Tax Act and exemption is valid till 2015-16.
- ❖ Under Section 6 (1) of the Foreign Contribution Regulation Act 1976.
- ❖ Permanent Account Number under the Income Tax Act 1961.
- ❖ It was registered under the State Tax on Employment, Trade and Callings as applicable in the State of West Bengal

We have verified all registration certificates and obtained copies of the same and the same could be furnished if required by the Trust.

Management of Various activities:

On perusal of the constituting document and Rules regulating day to day functioning of the organization, it was observed as under:

- ❖ BSWI was established as Society having 17 founder members.
- ❖ The society was to be managed by the Governing Board constituted by 9 members and headed by the President. The day to day execution responsibility was to be borne by 5 office bearers selected from the GB viz. President, Vice-President, Secretary, Asst. Secretary and Treasurer. As observed, all the posts were honorary except secretarial post and the same was paid remuneration on regular basis.
- ❖ The Governing Board was responsible and accountable for:
 - Maintenance of Bank Accounts.
 - Maintenance of Books of Accounts and audit of the same.
 - All programme and administration related responsibilities including optimum utilisation of resources received for contemplated social and economic programmes from various funding agencies were to be borne by the Secretary.
- ❖ In view of the above, one of the board members was appointed as paid secretary to bear the responsibilities of various activities.

- ❖ On perusal of documented organization structure enclosed herewith marked as **Annexure I**, and details of employees marked as **Annexure II**, it could be inferred that it was having well defined personal structure to bear various roles and responsibilities.
- ❖ We are also enclosing herewith details of program staff structure for the project supported by SDTT marked as **Annexure III** for your perusal.
- ❖ There was also a system of forming sub-committees by the GB having concerned staff members along with office bearers of the organization. We were informed that various committees had need based meetings wherein matters were discussed and decisions were taken. However formal records of minutes of various meetings held were not available for our verification. There was also system to have committees at village level for better implementation of various program activities. The said system helped making villagers behave with more responsibility and enjoying ownership of the program. The said committees were formed by beneficiaries selected from various Gram Panchayats, SHGs etc.
- ❖ We were informed that there was system to hold weekly meetings of program team at the field office to discuss various programme related issues and resolve challenges if any.
- ❖ As observed and stated herein after, organization was not having documented Program manual. However it was having documented policies related to Finance, HR, Purchase etc. describing policies and procedures need to be observed for various activities and transactions at the organization. During review process it could be observed that various policies were generally put in practice to the extent possible in prevailing working conditions in the fields and available resources at the disposal of the organization.
- ❖ It could be inferred from our verification and discussion that there was a system to generally delegate the powers to procure material, human resources to various officials taking care of program implementation at various project fields. However all decisions taken were under close perusal by the secretary and treasurer on regular basis and GB at regular intervals at least two times a year.

Recommendation:

- The constituting document of the organization was silent on payment of

remuneration to office bearers. We are not aware of the provisions contained in the constituting Act. However, another organization registered under the same Act informed that the Constituting Act does not permit payment of remuneration in any form to office bearers or GB members. In view of the same, in our opinion BSWI should obtain detailed legal opinion as regards compliance to all applicable statutes as regards having post of profit by the secretary of the society.

- The organization should prepare and maintain formal records of practices contemplated to have been followed to claim to have participatory and transparent management system in place.

Auditee Response:

3. DETAILED OBSERVATIONS

<u>4.1</u>	Budgeting and Planning	<u>PARTLY SATISFACTORY (NEEDS IMPROVEMENT)</u>
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On perusal of the audited balance sheet for the year ended 31st March 2011, it was observed that organization was having annual financial turnover amounting to Rs. 5.3 million and the same was increased to Rs. 8.6 million in 2012 and 2013. The increase in financial outlays by 60% during past two years was due to project grant received from SDTT. On our enquiry about financial budgeting and planning systems in practice, we were informed as under:

- ❖ BSWI was having head office at Diamond Harbour, Baradrone and two field offices viz. West Medinipur (having small activities of maintaining 42 SHGs) and Gazole Block Office for implementation of extension program sanctioned by SDTT. Field offices were required to submit monthly requisitions to H.O. for fund requirements.
- ❖ The organization was not having many projects on large scale and in view of the same, formalized system of planning and preparing overall organization budget was not in place. However, planning exercise was undertaken for various projects implementation. The said planning and budgets were prepared on the basis of approved budgets received from funding agencies. However in

absence of formalized system of preparing budget and fund flow etc. it could not plan investment of surplus or idle funds lying in grant accounts in interest bearing instruments.

- ❖ While conceptualizing the program and budget for the same, due care was exercised to incorporate norms prescribed by funding agencies.
- ❖ The said budgets were submitted to respective funding agencies for their approval.
- ❖ All project managers and program coordinators were required to submit activities accompanied by proposed expenditure required to the secretary for approval during weekly meetings. The formal approval provided by the Secretary was used as base for disbursement of approved budget and monitoring program activities.
- ❖ We were informed that there was a system to plan procurement of and allocate resources and achieve targeted aims contemplated for program delivery.
- ❖ The secretary was bearing overall responsibility of tracking fund flow.

To conclude, from above stated system and discussion we had, it could be inferred that BSWI was not having formalized budgeting and planning system in place accompanied by very moderate inflow and outflow of funds in the organization. In view of the same, system prevalent was observed to be commensurate with the size of operations requiring strengthening as stated herein below.

Recommendation:

The organization should put in place formalized fund flow systems in place to ascertain investable surplus so as the same could be deployed in interest bearing securities to have an additional income in the form of interest. The said income could be utilized for additional program activities or creating some infrastructure facility as per directions received from the funding agency.

Auditee Response:

<u>4.2</u>	Review of accounting system and internal controls regarding:	
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<u>4.2.1</u>	Maintenance of Books of accounts	<u>PARTLY SATISFACTORY</u> <u>(NEEDS IMPROVEMENT)</u>
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On perusal of hard copies of books of accounts and other records including supporting documents evidencing various expenditures and payments, we observed as under:

- ❖ The organization was having very brief Finance and Accounting Manual describing the time frame for preparation of financial statements including purchase procedures. However, it did not prescribe methodology for maintaining books of accounts and other records.
- ❖ The responsibility of maintaining manual accounts was borne by full time accountant under hand holding support provided by the auditor.
- ❖ Books of accounts related to Foreign and Indian Funds were maintained separately.
- ❖ There was a system to prepare individual accounts for various projects if required by the funding agency and consolidated account for projects funded by foreign funding agencies. At the year end, all project accounts were manually consolidated.
- ❖ Generally all payment/expense vouchers were primarily prepared by the program staff followed by verification by the accountant prior to actual payments. However all transactions required to be verified, approved and authenticated by the secretary and treasurer at regular intervals.
- ❖ We were furnished with audited consolidated and project-wise individual accounts for our perusal. We are enclosing herewith copy of audited accounts for the year ended 31st March 013 marked as **Annexure IV** for your perusal. On perusal of the same it was observed that they were in agreement with books of accounts subject to observations on non-disclosure submitted in detail herein after at point no. 4.2.9.
- ❖ It was observed that consolidated accounts for projects funded by Indian Funds were not prepared, however the same were prepared for projects funded by foreign funds followed by overall consolidation of accounts.

Recommendations:

- Consolidated accounts for projects funded by Indian Funds should be prepared.
- Detailed documented accounting procedures and systems should be drafted, approved and adopted in practice.
- The organization need to strengthen its accounting information system to

make it more transparent disclosing various financial components. We have submitted recommendation in detail herein after at point no. 4.2.9.

Auditee Response:

<u>4.2.2</u>	Cash and Bank transactions	PARTLY SATISFACTORY (NEEDS IMPROVEMENT)
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Cash Transactions:

On perusal of system of cash and bank transactions, we observed as under:

- ❖ As a thumb rule, all expenses and or payments to be made were required prior approval from secretary and or treasurer. The said approval was provided only after confirmation of availability of budget.
- ❖ Normally all regular expenses having budgetary approval were primarily approved by the program coordinator and or accountant followed by verification and authentication by the secretary. Expenses in the nature of exception required proposal from the Project Coordinator followed by approval from the Secretary and or Treasurer.
- ❖ On perusal of records, it was observed that 80% of total expenses charged to SDTT Grant were incurred in cash.
- ❖ There were no set procedures and upper limits for cash payments were fixed at Rs. 20,000/-. However on perusal of accounts related to SDTT, it was observed that payments in excess of Rs. 20,000/- were made on some occasions even when payee was having bank account.

Bank Account Operations:

On perusal of system of bank transactions, we observed as under:

- ❖ The organization was operating 4 savings bank accounts 2 for Indian Funds excluding SDTT Grant and one each for SDTT Grant and Foreign contributions.
- ❖ As per the system in place, bank accounts were required to be operated under joint signatures of two office bearers out of three who also happened to be members of the Governing Board. As informed, generally all bank accounts were operated under joint signature of secretary and treasurer.
- ❖ The organization had also system that for cash withdrawal from the bank, either of signatories required to visit the bank in person. In view of the same, either cash for program implementation was withdrawn during the visit of secretary to

fields or program coordinator visit head office with his cash requisition and withdraw from there.

- ❖ On perusal of the records made available, it was observed that the above stated procedure was generally followed.

Recommendation:

- The organization should reduce cash transactions to minimum.
- It should operate bank accounts at various branch locations and should inculcate banking habits and make people agree to have bank transactions with BSWI instead Cash.
- Limits and nature should be set at lowest possible amount for cash expenses
- It could introduce system of paying advance for program expenses in the personal name of program coordinator by account payee cheques drawn in his favour. The procedure should be laid down for submission of statement of expenses and settlement of advances at reasonably shorter periods. This would reduce cash handling by almost 50% and office bearers' time of visiting bank for cash withdrawal would also be saved.

Auditee Response:

<u>4.2.3</u>	Management of Advances	SATISFACTORY
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On perusal of system and management of advances at the organization, we observed as under:

- ❖ There was a system of giving advances to program team for program implementation.
- ❖ It was also required to give advance to staff for undertaking travel, lodging, boarding, conducting training, making some purchases etc.
- ❖ All advances were observed to be under close control and knowledge of the Secretary.
- ❖ Persons taking the advances were required to submit details of expenses generally at an interval of fortnight during secretary's visit to fields.
- ❖ On receipt of details of expenses against advance settlement, the accountant verified them for correctness and forwarded to the secretary for approval and authentication.

- ❖ There was also a system of not disbursing any advances post February so as all advances could be settled prior to year end closure of accounts.

On perusal of books of accounts and outstanding advances receivable, it was observed that there was hardly any overdue outstanding advance receivable from any parties. In view of the same, it could be inferred that there was a system of regularly monitoring the recovery or adjustment of the advance as stipulated by the management. It was further observed that advance management system in place was commensurate with the size of operations.

<u>4.2.4</u>	Stock and Fixed Asset Management	<u>PARTLY</u> <u>SATISFACTORY (NEEDS</u> <u>IMPROVEMENT)</u>
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The organization was having stock of various items produced, traded at the H. O. and procured for program implementation activities carried on at field levels. The records for purchase and stock were observed to be maintained at field levels. However verification and authentication of the said records was not available. We were furnished with incomplete asset register at field office. However, the same required to be updated by having various details viz. identification numbers, location of asset, authentication, source of funding, depreciation charged, location, current status etc. Further we could not ascertain the process of physical verification of assets and inventory followed by reconciliation with books of accounts and accounting for lost, damaged, and discarded assets.

Recommendation:

- The assets register and record should be maintained with identification nos. and other details stated herein above. The organization should have formal physical verification process at regular intervals in place. Further at the close of the year, the register should be authenticated by the administrative head of the Organization followed by the statutory auditors certifying that the same were verified by them.
- The stock of inventory items should also be maintained in prescribed manner with all details having appropriate authentications for receipts, issues and balance in stock to provide required sanctity. The same also need to be physically verified at fixed interval and formal record of the said exercise

should be maintained along with details of accounting treatment given for differences observed.

Auditee Response:

<u>4.2.5</u>	Approval Process and Delegation of Powers	<u>SATISFACTORY</u>
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The organization was not having documented policy and procedures describing approval process. It was also not having documented authentication matrix describing roles and responsibilities borne in the organization by various officials. As stated herein above, the organization had system of initially approving various expenses by the accountant or program coordinator followed by the secretary and or treasurer. After release of advance, various expenses were incurred and respective program coordinator submitted statement of expenses accompanied by advance settlement. Thus it was commensurate with the size of operations. Further organization was also having system of delegation of powers in place accompanied by accountability.

Recommendation:

In our opinion documented approval process and authentication matrix duly defining the flow of authority should be put in practice to avoid human errors.

Auditee Response:

<u>4.2.6</u>	Asset Procurement Policy	<u>PARTLY SATISFACTORY (NEEDS IMPROVEMENT)</u>
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As stated herein above, it was having very brief documented procurement policy. During our enquiry, we were informed that there was a process whereby it was ascertained that the asset was actually needed. The said determination was followed by verification of budget allocation for finding a source to finance the same. If the secretary could satisfy about need and availability of budget provisions, the process of inviting quotations, appraisal of the same, placement of order, receipt of material, creating records, payments etc. was followed. We were informed and it could be observed on perusal of accounts that the organization was not required to procure

many assets except a few under different projects viz. furniture, equipments, computers etc.

Recommendation:

- In our opinion documented approval process should be put in practice to avoid human errors.
- Formalised records and registers should be maintained
- Formal physical verification, reconciliation, accounting and authentication process should be put in place on regular basis to provide requisite sanctity to various records.

Auditee Response:

<u>4.2.7</u>	Investment Policy	PARTLY SATISFACTORY (NEEDS IMPROVEMENT)
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On perusal of audited accounts and details of bank balances, it could be observed that organization maintained large balances in designated bank account pertaining to SDTT Grant. The said balances could have been deployed into short term deposits or it could have been linked to Fixed Deposit accounts by availing “Auto Sweep” facilities provided by all banks. As stated herein above, it was not having documented finance policy and in view of the same there was no investment policy. We are enclosing herewith details of monthly bank balances for the period 1st December 2009 to 31st October 2012 (35 months) marked as **Annexure – V** for your perusal. On perusal of bank balances at month ends and interest received amounting to Rs. 70,735/- during the grant period, it could be inferred that the organization was having idle surplus which could have been deployed in higher interest fetching short term deposits.

The organization was engaged in Micro-finance activities wherein it was giving loans to SHGs at the rate of 24% interest in addition to other charges. In view of the same, it was not investing any funds in securities specified under statutory provisions governing society and or trust.

Recommendation:

- In our opinion organization should obtain legal opinion as to whether it could engage itself into interest bearing borrowing and lending activities. Further the rate of interest recovered from borrower was more than double compared to

lending rates prescribed by the RBI. The said opinion is required to be taken on priority so as the tax exemption status of the organization is not jeopardized.

- As regards SDTT grant was concerned, Trust had disbursed grant installments during beginning of the year. The organization could have invested said money in short term deposits on the basis of surplus arrived at after having detailed fund flow chart for the project. However, the said exercise was not done. This could have helped earning alternate income in the form of interest and the same could be utilized for creating some infrastructure or program activity as per directions received from SDTT.

Auditee Response:

<u>4.2.8</u>	Human Resource Management	PARTLY SATISFACTORY (NEEDS IMPROVEMENT)
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The organization was having total staff strength of 19 employees including 6 appointments as per project requirements. It was observed that it was having documented HR Policy or Service Rules and in view of the same, consistency in HR related compliances, payments etc. could be observed if the same were followed without exception. It was observed that organization was not having staff social security provisions like PF, Leave encashment, Gratuity etc. However, all matters related to staff were informally managed by and maintained by Coordinators and or Secretary.

Recommendation:

In our opinion, BSWI should follow documented HR policy for whole organization and put in practice staff social security measures in the form of medical benefits, education allowance, Provident Fund, Gratuity, Leave encashment etc. to all employees. This would help boosting the morale of employees accompanied by lesser turnover of staff affecting program implementation and achievements adversely.

Auditee Response:

<u>4.2.9</u>	Audits	PARTLY SATISFACTORY (NEEDS IMPROVEMENT)
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Internal Audit system:

BSWI was not having formalized Internal Audit System wherein internal audit exercise being undertaken by an independent CA firm on regular basis. However we were informed and it could be observed from records produced that there was a system of internal control in place. As per the system, all expenses were initially approved by the project coordinators followed by verification by the accountant. The same were forwarded to the Secretary for his perusal, approval, and authentication. The accounting or financial transaction of purchase, payments, expenses, advance settlement etc. were not concluded without obtaining approval from the secretary.

Recommendation:

Formalized Internal Audit System may be put in place to have better internal control over financial and administrative areas of operations. The said system would help plugging gaps, lacunas and lapses in system, compliance to statutory requirements, investments etc.

Auditee Response:

Statutory Audit:

Organization was having statutory audit process being undertaken with reasonable detailed verification of accounts, expenses and various financial statements related to different projects. On perusal of audited accounts and auditor's report for past 3 years, we observed as under:

- ❖ The accounts were observed to be in agreement with the books of accounts subject to anomalies observed during the year ended 31st March 2011 as stated herein below.
 - Total Beneficiary Contribution was accounted as Rs. 5,86,170/- instead of Rs. 5,88,170/-.
 - Beneficiary contribution of Horticulture was accounted as Rs. 60,800/- instead of Rs. 62,800/-.
 - On account of the above compensating error, the Beneficiary Contribution was understated by Rs. 2,000/-. However on account of compensating nature of error, the Surplus/Deficit under the Income & Expenditure remained unaffected.
 - Revolving Fund amounting to Rs.100,000/- was created under the liability for which satisfactory explanation could not be provided by the management.

- Net payments towards Corpus Fund to various SHGs was amounting to Rs. 200,000/-. However, in the audited account the same was reflected as Rs. 300,000/- and Rs. 1,00,000/- as liability. On account of the said error, the Assets & Liabilities were inflated by Rs. 100,000/-. However we were not furnished with satisfactory explanation for the said anomaly.
- ❖ Observations on transactions related to disbursement of Corpus Fund to SHGs during formation stage:
 - Corpus fund was advanced to various Self Help Groups (SHG) for which the payment vouchers were submitted for our verification along with the Resolution of the SHG and the list of Beneficiary duly authorized by the Chairman, Secretary & cashier of the respective SHG.
 - We were informed that the Corpus Fund advanced during the year was received back in the subsequent year. It was further advanced to other SHGs and the chain process continued. However physical cash movement could not be verified in books of accounts. The amount received and advanced to other SHGs were accounted through Journal Voucher under Local Contribution Account. Further no records substantiating said transactions were available for verification.
- ❖ The accounts were accompanied by Notes forming part of the accounts and partial disclosure of norms observed while drawing the accounts.
- ❖ We also perused Audit report submitted under section 12 A (b) of the Income Tax Act, 1961. As observed from the copy of said report enclosed herewith marked as **Annexure VI**, it was incomplete and incorrect. It did not disclose permissible accumulations under section 11 and financial benefits derived by persons specified under section 13 (3) of the IT Act.
- ❖ The audit verification process required to be strengthened as stated herein below to make it commensurate with the size of operations at the organization. However, there were certain observations and areas requiring further strengthening as submitted herein below at point no. 4.5 to make the financials more transparent:

Recommendation:

- The audit report issued under section 12A (b) of the Income Tax Act should

be correctly drawn and submitted disclosing various details as per statutory requirement.

- The auditors should take due care prior to authentication of accounts and issuing the certificate as regards true and fairness of the accounts. It should be confirmed that the accounts are drawn in totality and they disclose all financial transactions without any exception.
- Asset and Inventory records should be provided requisite sanctity by verification and authentication.

Auditee Response:

4.3	Project Monitoring and System of Reporting	SATISFACTORY
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As stated herein above, organization was running 3-4 extension projects as per skeletons prepared by the secretary in consultation with the funding agencies and program coordinator having specialized knowledge of program implementation. The organizational activities and financial accounting were maintained at the head office under different hands but under centralized control of the Secretary. We were informed that there was a system of weekly review meetings attended by all staff members at respective field offices wherein stock of various program activities was taken. The said meetings also discussed challenges faced in program implementation, solutions to overcome them and decisions were taken on future course of actions. The program coordinators, cluster co-ordinator and member secretary monitored program activities as required by visiting program fields. The program coordinators prepare reports and submit to the secretary for his perusal as per terms and conditions stipulated in the grant sanction. The secretary was under an obligation to prepare summary on functioning of the organization and to submit for Board's perusal at regular intervals with minimum of two submissions during the year. Further post completion of the audit, he was also required to submit audited accounts to the GB members along with necessary explanations and notes. The secretary was considered as the legal holder of the project and in view of the same, reports required to be submitted to funding agencies were prepared under his guidance and authentication.

The organization was having moderate number of projects having moderate amounts and activities being involved, it was possible for the secretary to personally

monitor all projects. On perusal of system of monitoring and reporting, it was observed to be commensurate with the size of operations at the organization.

❖ **Filing of Annual Budget, Change Reports and Audited accounts duly adopted by the Members of the Society with the Registration Authority:**

BSWI was registered under the Societies Registration Act 1961. It was under an obligation to file various returns and documents related to tax exemption, FCRA compliance, auditor's report, details of Governing Body constitution etc. It was observed that the organization complied with said statutory requirement and the same was within time limit prescribed under the statute. We are enclosing herewith copy of the same marked as **Annexure VII** for your perusal.

❖ **Income Tax Act 1961:**

The organization was registered under section 12A and 80G (V) (VI) of the Income Tax Act 1961 and was under an obligation to file return under section 139 of the Income Tax Act 1961 along with Audit Report duly signed by the Statutory Auditors in the prescribed format u/s 12A (b) of the IT Act. On perusal of records, it was observed as under:

- The acknowledgement for filing the Return of Income for the year ended 31st March 2013 was available disclosing nil income and expenditure of the society. We are enclosing herewith copy of documents related to statutory compliance for the year ended 31st March 2013 furnished for our perusal marked as **Annexure VIII** for your perusal. We were not furnished with statement of computation of total income, copy of return and audit report under section 12A (b) of the IT Act. In view of the same, we are not in a position to comment on the correctness of the said compliance. However, on perusal of system generated acknowledgement and hard copy of the report for the previous year, possibility of filing incorrect return and report could not be ruled out. We are enclosing herewith copy of documents related to statutory compliance for the year ended 31st March 2012 marked as **Annexure IX** for your perusal.

Recommendation:

- The Computation of total Income should be in consonance with the Income and Expenditure account followed by return of income and statutory audit report required to be submitted by the statutory auditor. In view of the same, required correction should be carried out on priority.
- As suggested herein above, detailed legal opinion should be obtained on applicability of provisions contained in section 2(15) of the Income Tax Act 1961.

Auditee Response:

❖ **TDS Compliances:**

BSWI did not obtain Tax Deduction Account Number under the Income Tax Act 1961. On perusal of records it was observed to be under an obligation to comply with stipulated provisions under the Act as regards deduction of Income Tax, payment thereof in the Central Govt. Treasury, file quarterly Returns, issue TDS certificates etc. However, it was grossly non-compliant to said statutory requirements. Organization was having various transactions including salaries, consultancy fees, contractual payments etc. liable to said compliances. However, the same were not complied with.

Recommendation:

In our opinion the organization should comply with the said statutory provisions to avoid penal proceedings from the department on top priority.

Auditee Response:

❖ **Compliance under FCRA 1976:**

Organization was registered under section 6 of FCRA 1976 and was under an obligation to maintain separate set of books of accounts, bank account and file audited accounts with the Ministry of Home Affairs. We were informed that the organization had complied with all statutory requirements. However, in absence of records to verify the same, we are not in a position to comment on satisfactory compliance of the same.

Provident Fund:

As stated herein above BSWI was having 20 full time employees and 20 part-time project specific employees, consultants etc. However the organization was not registered under Provident Fund and Miscellaneous Provisions Act, 1961.

Recommendation:

- As suggested herein above, organization should try to provide PF cover to

all employees so as to provide social security to employees, maintain morale of employees and to provide security to their family and have savings. This would also help reduce the staff turnover and boost their morale to perform better.

Auditee Response:

❖ **Compliance related to payment of Gratuity on retirement or resignation:**

As stated herein above, there was no system or had any provisions related to Gratuity payments on retirement or resignation of the employees as per Payment of Gratuity Act.

Recommendation:

As a measure of providing social security to staff, said benefit may be introduced.

Auditee Response:

❖ **Compliance related to State Tax on Profession, Trade and Callings as applicable in the State of West Bengal:**

On perusal of statutory provisions, it was observed that the organization was under an obligation to comply with provisions contained in the statute as regards recovery and payment of Profession Tax while making salary payments to employees. As observed from records furnished, the organization did comply with said provisions.

❖ **Compliance related to Service Tax Act:**

The organization was not registered as service provider and in view of the same it was not under an obligation to comply with any provisions related to collection and payment of Service Tax collected while providing services. On perusal of accounts and other financials, it could be observed that it was not receiving professional and or consultancy fees for providing services. In view of the same, contention of not being under an obligation to comply with said statutory requirements was correct.

<u>4.5</u>	Utilization of Previous Grant	<u>PARTLY SATISFACTORY (NEEDS IMPROVEMENT)</u>
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As stated herein above, SDTT had sanctioned and disbursed grant amounting to Rs. 73,39,900/- vide grant letter dated November 2009 to BSWI. The said grant was

towards “Integrated Livelihoods” in Gazole Block of Malda District in West Bengal for the period of three years commenced from November 2009 and ended on 31st October 2012. On perusal of books of accounts and other records substantiating grant utilization, we observed as under:

- ❖ BSWI maintained designated bank account for grant related income and expenditures.
- ❖ As stated herein above 80% of expenses charged to the grant were incurred in cash. We tried to co-relate expenses charged to grant with activity accomplishments as contemplated in the program sanction.
- ❖ We were furnished with periodical Grant utilization for our verification. We verified the same with the separate books of accounts maintained and evidences substantiating the payments and or expenses. On perusal it was observed that various expenses charged to grant were supported with evidences, third party bills and vouchers as may be applicable and possible at field levels.
- ❖ We submit consolidated grant utilization marked as **Annexure X** for the period November 2009 to October 2012 (36 months period) for your perusal. On perusal of the same we observed as under:
 - As per audited grant utilizations submitted to SDTT, interest was earned on balance maintained in SB Account amounted to Rs. 70,735/- and the same was applied towards grant objects.
 - There were a few expenses charged to grant for which adequate supporting documents were not available and details of the same are furnished in **Annexure XI** enclosed herewith for your perusal. There were 3 instances of contributions mobilisation in the form of expenses being incurred by respective gram panchayats. However, no evidences substantiating the same were available for our verification. We have submitted details of the same in the above stated Annexure.
 - The grant sanction had defined component of other source contribution to be mobilised by BSWI to the program. However there was hardly any physical inflow of contribution to the program account. We tried to verify the intricacies of the same and submitted our observations in the **Annexure XII** enclosed herewith.
 - Grant was charged with non-plan expenses amounting to Rs. 44,086/- .

We also visited the program area to verify intervention and observed that farmers were found to be benefitted by increase in their income. We are enclosing herewith observations made during field visit marked as **Annexure XIII** for your perusal.

4. ACKNOWLEDGEMENT:

We are thankful to the founder member cum Secretary and other staff of the Organization for the co-operation extended to us during the course of our audit reviews. We shall be glad to discuss our findings and offer any elucidation you may need in the matter.

Yours faithfully,

For P. M. Bavishi and Co.

Chartered Accountant

P. M. Bavishi

Partner

M.N. 037558

Date: 9th December 2013

Encl: Annexure I to XIII.