

CONCURRENT AUDIT

Concurrent audit is a systematic examination of financial transactions on a regular basis to ensure accuracy, authenticity, compliance with procedures and guidelines. The emphasis under concurrent audit is not on test checking but on substantial checking of transactions. It is an ongoing appraisal of the financial health of an entity to determine whether the financial management arrangements (including internal control mechanisms) are effectively working and identify areas of improvement to enhance efficiency.

Independent Chartered Accountant firms are needed to be appointed at State & District Level to undertake periodical audits and report on vital parameters which would depict the true picture of financial and accounting health of the program.

Objective

The key objectives of the concurrent Audit include:

- To ensure voucher/ evidence based payments to improve transparency
- To ensure accuracy and timeliness in maintenance of books of accounts
- To ensure timeliness and accuracy of periodical financial statements
- To improve accuracy and timeliness of financial reporting especially at sub-district levels
- To ensure compliance with laid down systems, procedures and policies
- To regularly track, follow up and settle advances on a priority basis
- To assess & improve overall internal control systems

Scope of Audit

The responsibilities of the concurrent auditors should include reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with financial norms and procedures of the operational guidelines.

The concurrent audit should be carried out both at State as well as District level.

The scope of work of "State Concurrent Auditor" is as follows:

- Audit of the SHS accounts and expenditure incurred by SHS
- Verification of Quarterly FMRs with Books of Accounts
- Audit of Advances at the SHS level
- Audit of the Provisional Utilization Certificates sent to GoI
- Monitoring timely submission of the District concurrent audit reports
- Detailed analysis and compilation of the District concurrent audit reports
- Vetting of the State Action Taken Reports and providing observations thereon
- Follow-up & monitoring over the ATRs prepared by districts on the observations made in the audit
- Preparation of Quarterly Executive summary to be sent to GoI in the prescribed format
- Any other evaluation work, as desired by the State Audit Committee

The scope of work of "District Concurrent Auditor" is as follows:

- Review of the DHS Accounts and expenditure incurred by the DHS
- Audit of Financial Statements of DHS
- Certification of the Statement of Expenditure
- Review and analysis of the Age wise and Party wise Advances Report
- Comparison between financial and physical performance and analysis
- Visits to sample blocks (in a way to cover all blocks in a year) and peripheral units
- Filling in the checklist provided
- Vetting of the district ATRs and providing observations thereon
- Any other evaluation work, as desired by the District Audit Committee

Frequency

- Concurrent Audit will be carried out on a "monthly basis".

Coverage

- The State Concurrent Auditor should ensure coverage of all the districts and the District Concurrent Auditor should ensure that all the blocks are covered over the entire year.
- For districts containing upto 12 blocks, it needs to be ensured that at least one block is covered every month. For districts consisting of more than 12 blocks, it needs to be ensured that every block is covered at least once during the year.
- The audit plan should include a visit to at least 50% PHCs/ CHCs, 3 sub-centres and 3 VHSNCs located within the block selected for visit. The states may decide to increase the scope for the same.
- The audit has to include accounts maintained under RKS and NDCP (wherever applicable).

Audit Committee

An audit committee should be constituted at the state as well as district level¹ to facilitate and monitor the appointments and overall audit process at state and district level.

State Audit Committee (SAC)

Members

SAC should consist of the following:

¹ States may take appropriate steps to notify/ constitute the State/ District Audit Committees.

Person	Designation in Committee
Director (Finance) – State/ Mission Director (where Director Finance or equivalent is not appointed)	Member-secretary
Divisional commissioner	Member
State Finance Manager	Member
Regional Director- DHS	Member
State Programme Manager	Member
Representative from NDCP (atleast one)	Member

The SAC should function under overall guidance of Principal Secretary (Health) at the State level. The SAC should meet at least 4 times in a year. Also, a copy of minutes of the meetings of the SAC related to the appointment of auditors shall be sent to Principal Secretary –Health at the state level for concurrence purpose.

Functions of the SAC

- Selection and appointment of the State concurrent auditors
- Issue of advertisement for appointment of District concurrent auditors
- Final concurrence for the appointment of District concurrent auditor
- Monitoring timely audits at the state and district level and timely submission of audit reports
- Discuss the key audit findings with state concurrent auditor and state finance manager and suggest appropriate actions
- Monitor whether adequate follow up action is being taken by the state finance personnel on the audit observations
- Authorize the payment of remuneration to the auditor (only after approving the Action Taken Report on the issues highlighted during the course of the audit)
- Carrying out an assessment of the audits in case the auditors are being considered to be reappointed and the renewal of the auditors' contracts, in case of reappointment.

District Level

Members

The members of the district audit committee should be the following:

Person	Designation in Committee
Chief Medical Officer	Member-Secretary
District Magistrate	Member
District Accounts Manager	Member
Representative from NDCP (at least one)	Member

The DAC should function under the guidance of Director (Finance) (or Mission Director, where Director (Finance) is not available) at the state level. The DAC should meet at least 6 times in a year.

Functions of the DAC

- Selection and appointment of District concurrent auditors (in concurrence with the State Audit Committee)
- Monitoring timely audits at the district level and timely submission of audit reports
- Discussing the key audit findings with district concurrent auditor and district accounts manager and suggest appropriate actions
- Monitoring whether adequate follow up action is being taken by the district accounts manager on the audit observations
- Monitor whether ATR has been prepared by the DAM/ CMO and given to the auditor and whether the same has been vetted and sent by the auditor within the requisite time limit
- Carrying out an assessment of the audits in case the auditors are being considered to be reappointed with intimation to SAC
- Renewal of the auditors' contracts with intimation to SAC

Appointment & Selection of Auditors

State Level Auditors

- Appointment and selection of the state level concurrent auditors will be done by the respective State Audit Committee through Open Tender System. The tender document should be advertised through a central advertisement at the state level. EoI format as prescribed in the guidelines along with the Terms of Reference should be provided to all firms in order to receive their Technical Bids.
- Interested firms should submit their bids in two parts- Technical and Financial bids. Both the bids should be submitted in two separate sealed envelopes, which should be opened in meeting of the audit committee.
- The audit committee would first open the technical bids and evaluate them on the basis of the criteria as prescribed in the guidelines. The audit committee should arrive at a base minimum figure/ threshold and CA firms scoring above the base minimum figure should be deemed to have technically qualified to undertake the job
- Financial bids of only technically qualified firms should be opened by the committee and audit should be awarded to the lowest bidder.
- If the lowest financial bidder does not agree to undertake the audit work within the prescribed audit fee or the audit committee deems it unfit for any reason (reasons to be recorded in writing), the job may be awarded to the next lowest financial bidder if the firm agrees to undertake the job. However, the work may only be awarded to a technically qualified bidder (the firms which are above the base minimum figure of the technical evaluation).
- Once selection is finalised by SAC, the same may be intimated to Principal Secretary Health for his concurrence.
- Timelines:
Following may be the timelines for the appointment process:

Activity	Timeline
Floating of the RFP	31 st December
Receipt of bids	31 st January
Evaluation of bids	End of February
Issue of award letter	31 st March

District level Auditors

- The tender document for the appointment of District Level Auditors will be floated through a central advertisement at the state level. EoI format as prescribed in the guidelines along with the Terms of Reference should be provided to all firms in order to receive their Technical Bids.
- Interested firms should be asked to submit their bids directly to the concerned district in two parts- Technical and Financial bids. Both the bids should be submitted in two separate sealed envelopes, which should be opened in meeting of the district audit committee.
- The district audit committee would first open the technical bids and evaluate them on the basis of the criteria as prescribed in the guidelines. The audit committee should arrive at a base minimum figure/ threshold and CA firms scoring above the base minimum figure/ threshold should be deemed to have technically qualified to undertake the job.
- Financial bids of only technically qualified firms should be opened by the committee and audit should be awarded to the lowest bidder.
- If the lowest financial bidder does not agree to undertake the audit work within the prescribed audit fee or the audit committee deems it unfit for any reason (reasons to be recorded in writing), the job may be awarded to the next lowest financial bidder if the firm agrees to undertake the job. However, the work may only be awarded to a technically qualified bidder (the firms which are above the base minimum figure of the technical evaluation)
- The final appointment will be done only after obtaining the concurrence of State Audit Committee and Director (Finance)/ Mission Director in the prescribed format.
- In case the meeting of SAC gets delayed due to some reason, post-concurrence shall be obtained in the next immediate meeting.
- Director (Finance) as member-secretary of SAC may coordinate to ensure that excessive delays are avoided and consolidated intimations are received from all the districts.
- Following may be the timelines for the appointment process:

Activity	Timeline
Floating of the centralized RFP by the state	15 th December
Receipt of bids by the districts	15 th January
Evaluation of bids by districts	15 th February
Forwarding recommendations by the districts to states	End of February
Approval by the state to the districts	15 th March
Issue of award letter	31 st March

Remuneration

- The fee structure for the concurrent auditor should be decided keeping in mind overall scope and coverage of audit. The state may provide an 'indicative range' for audit fees, however actual fees for state as well as district level audits should be decided through competitive bidding process.
- The respective audit committees can take a view on the rationalization of fees before approving the same and can also make suitable modifications to limits for the audit fee taking into account factors such as, inflation.
- In case the appointment does not happen within the first quarter the fees should be appropriately reduced as per the decided scope and coverage.
- The decision on remuneration should be judicious and balanced.

Term of appointment of the Auditor

State Level

- At the state level, the concurrent auditor appointed once can be retained/ reappointed for a maximum of two financial years i.e. current year and next year.
- However, the contract awarded should be for one year at a time and should be renewed next year on the basis of review of auditor's performance.

District Level

- At the district level, the concurrent auditor appointed once can be retained/ reappointed for a maximum total term of two financial years i.e. current year and next year.
- However, the contract awarded should be for one year at a time and should be renewed next year on the basis of auditor's performance review.
- There is no bar on the auditor from applying for the audit of a different district in the same state for the next year, provided it does not exceed the limit of 30% of the districts in the state, or 8 districts, whichever is lower.

Contents of Audit Report

Concurrent Audit Report of a "State Health Society" should contain the following financial statements and documents:

- Duly filled in Checklist provided in the guidelines
- Financial statements as prescribed
 - Audited Trial Balance
 - Audited Receipts & Payments A/c
 - Income & Expenditure A/c
 - Balance Sheet
 - Audited SoE
 - Bank Reconciliation Statement
 - List of outstanding advances
- Observations and Recommendations of Auditor – particularly covering the following aspects:
 - Deficiencies noticed in internal control
 - Suggestions to improve the internal control
 - Extent of non-compliance with Guidelines issued by GOI

- Action Taken by State Health Society on the previous audit observations, along with his observations on the same

Concurrent Audit Report of a “**District Health Society**” should contain the following financial statements and documents:

- Duly filled in Checklist provided in the guidelines
- Financial statements as prescribed
 - Audited Trial Balance
 - Audited Receipts & Payments A/c
 - Audited Income & Expenditure A/c
 - Balance Sheet
 - Audited Statement of Expenditure
 - Bank Reconciliation Statement
 - List of advances
- Observations and Recommendations of the auditor (including observations on blocks visited)
- Action Taken by District Health Society on the previous audit observations, along with his observations on the same

Notes:

1. Soft copy of the district audit report needs to be submitted to Director (finance) at the state level.
2. The Director (Finance) at the Centre may call for the concurrent audit report of any district/ state.
3. The reports at both the state and district level will include consolidated report of RCH, Additionalities under NRHM, Immunization and NDCPs. In addition, it should also include instances of misappropriation/ unauthorised diversion of funds as noticed during the audit.

Quarterly Executive Summary

- The state is required to send a **Quarterly Executive Summary** to the Centre by compiling the observations from the State as well as District Concurrent Audits (Format attached as *Annexure*).
- The executive summary should provide information on aspects like quality of FMRs, maintenance of books of accounts, advances, compliance with audit observations etc.
- It shall be signed by both the concurrent auditor and the Mission Director at state level and sent to the Mission Director, MOHFW

Key Timelines

The key timelines which need to be adhered to are summarized below:

Activity	Timeline
Appointment of the SHS and DHS Concurrent Auditors	Before 31 st March of the current year
Carrying out concurrent audit	Monthly
Submission of Audit Report by Auditor to DHS/SHS	10 th of the next month
Submission of soft copy of district audit report to the Director (Finance) at state level	10 th of the next month
Submission of District Concurrent audit reports to the SHS	15 th of the next month
Submission of soft copy of the consolidated executive summary & Action Taken Report to the Mission Director, MOHFW	Quarterly- by 20 th of the first month of the next quarter
Submission of the executive summary report by the SHS to Centre	Quarterly – by 25 th of the first month of the next quarter

Monitoring and evaluation

- An Action Taken Report submitted by District Accounts Manager (and in case the DAM's post is vacant, the CMO) should be vetted by the district concurrent auditor and sent along with his observations to the Director (Finance) of the state within 30 days of completion of audit. SAM/ SFM should compile the ATRs of the state and districts and submit it to the Director (Finance) and Mission Director of the State at the end of every quarter.
- These reports will indicate the actions to be taken emerging from the latest audit reports including responsibility of implementation and timelines as well as provide the current status on action taken on the past observations.
- The Quarterly Consolidated ATRs of all the districts consolidated by the Director (Finance) of the state (as member-secretary) also need to be placed before the Mission Director & Principal Secretary (Health).
- Soft copy of the consolidated ATR shall be mailed to the Mission Director, MOHFW along with the soft copy of the quarterly executive summary.
- The auditor's fees shall be released only after ATR has been received by Director (Finance) of the state.

Indicative format of ATR is as follows:

S. No	Observation	Action to be taken	Responsibility to Implement	Timeline agreed	Current Status

- In order to ensure follow up of observations at the Block level, discussion on the audit observation and the way forward should be carried out during the monthly meeting convened by the CMO held at the district in the presence of District Accounts Manager.
- In order to effectively handle the audit observations, they should be classified as 'material' and 'non-material' based on their impact. Observations related to system deficiency should also be separately noted for system improvements.

Responsibilities of SHS/DHS

- **Submission & Compilation of Monthly Audit Reports**

Overall responsibility of monitoring the progress, timely submission and compilation of monthly audits should be of Director (Finance) of state who may be supported by the State Finance Manager and State Accounts Manager. In states where separate Director (Finance) has not been appointed the responsibility should be assigned to the State Finance Manager.

- **Compliance of Audit Observations**

District Accounts Manager (along with Chief Medical Officer at District level) and State Finance/ Accounts Manager are responsible for compliance of audit observations made in the audit report within the time limit prescribed.

- **Timely Closure of Books of Accounts**

SHS and DHS finance personnel need to ensure timely closure of books of accounts. Draft trial balance, income and expenditure a/c and balance sheet should be prepared and kept ready. This will facilitate in commencing audit quickly.

- **Production of relevant documents for Audit**

The State Health Society and its district programme units, along with CHCs/ PHCs and other RCH Programme implementing agencies shall be under obligation to provide the following:

- Books of Accounts
- Prescribed Registers
- Files regarding purchases of all types of goods/ items
- Files of Construction works
- Any other document requested by auditor in support/ reference of the above

The responsibility for the same shall lie with District Accounts Manager at the District Level and Director (Finance) & Mission Director at the State Level.

The documents shall be handed over to the auditors and receipt should be obtained of any such record which shall be returned to the in-charge of the audit party once the records are given back.

• **Facilitation of the Audit**

The following arrangements need to be made for the auditors:

- To provide proper space for sitting during conduct of Audit
- To provide requisite explanations & documents on the queries raised by the auditor during audit
- To provide auditors with ATRs on previous audit observations without any delay
- To arrange payments to the Auditor at the agreed times

• **Provide Relevant Guidelines issued by GoI to Auditors**

All relevant guidelines issued by GoI should be provided to the auditors before the audit work starts.

Few Important points – things to remember

- Audit Reports should be submitted on a monthly basis. Sometimes, states/ districts tend to submit audit reports together for few months (e.g. submission of 3 reports at the end of the quarter even if monthly audit is being carried out). This practice should be strongly discouraged
- In case of districts/ blocks visited during the audit, the audit report should contain a separate checklist for each unit covered and respective observations should also be included.
- The audit report should also cover qualitative issues emerging from the audit other than the financial statements.
- Checklists should be thoroughly filled and each aspect should be adequately elaborated. Observations reported on accounting and internal control issues should be properly detailed and substantiated
- Financial statement of NDCPs should be included in the consolidated audit report and audited
- The District Audit Committee shall meet atleast 6 times in a year (i.e. once every 2 months) and the State Audit Committee shall meet atleast 4 times in a year (i.e. once every 3 months) for follow up on the observations made by the auditor.
- Compliance status on the observations made in the previous audits should be properly reported and an Action Taken Report should be sent to the audit committee by the DAM (or CMO at the state level, where DAM's post is vacant)
- Soft copy of the consolidated executive summary & ATR (district and state) should be mailed by the Director (Finance) at the state level to Mission Director in the Ministry of Health & Family Welfare on quarterly basis.

ANNEXURE XXXVII: Executive Summary

(To be submitted to FMG, MoHFW, GoI by the State Programme Management Support Unit, State Health Society)

Name of the State _____

For the Quarter (due dates: 31st July/31st Oct/31st January/30th April)/Year

NOTE: Based on _____ the three monthly reports, this report _____ has to be submitted along with the Quarterly Financial Monitoring Report

Part-A: State level issues:

Books of Accounts

1. Whether books of accounts of SHS are computerized? If yes, whether any ERP system has been implemented?
2. Whether registers related to budget receipt and control, advances, staff payments, stock, investments etc. are being maintained properly?
3. Whether the Quarterly FMRs and Statement of Fund Position are based on books of accounts, and prepared in the prescribed format?
4. Whether the Quarterly FMRs and Statement of Fund Position are audited by the concurrent auditor?

Disbursement & utilization of funds

5. Provide a list of advances and total amount involved which are outstanding for more than a year. Mention the follow up action taken for the same.
6. Whether the Provisional Utilization Certificates sent to GOI have been audited by the concurrent auditor?
7. Whether there is any significant delay in disbursing the funds to Districts, after their receipt from GOI?
8. Whether the posts of State Finance Manager and State Accounts Manager are filled up? If vacant, since when?

Monitoring & evaluation

9. Whether the state audit committee has been meeting at regular intervals? (Indicate the number of meetings held during the period)
10. Whether audit observations of the concurrent auditor have been complied with?
11. Whether Action Taken Report on observations has been submitted regularly?
12. Whether the SHS has sent the Action Taken Report (ATR) on the last concurrent audit report of the DHS to the GOI?

Others

13. Whether unification of financial and accounting processes as per GOI Notification No. 107/FMG/2005-06 dated 14.12.2006 has been completed?
14. Whether delegation of Administrative and Financial powers have taken place as per GOI guidelines (circulated vide D.O. No. 118/RCH-Fin/2006-07 dated 1st May, 2007).

Part-B: District level issues:

Coverage

15. Name of the Districts where monthly concurrent audit has not taken place. (specify the reason)