

## FINANCIAL CAPACITY ASSESSMENT

### A. Background

1. A financial management assessment of the Department of Finance (DOF), Government of Meghalaya (GOM) was undertaken to assess the adequacy of existing procedures relating to budgeting, accounting, governance, funds flow, financial reporting, internal control systems and auditing. A similar review was undertaken of the two project implementing inits (PIU) – Meghalaya State Skill Development Society (MSSDS) and the Department of Education (DOE), to assess the adequacy of internal controls systems and processes. The assessment was designed to determine whether the executing or implementing agencies’ financial management arrangements are adequate for recording all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entities’ assets, and are subject to audit. The Department of Finance and DOE are governed by the existing Meghalaya Government Financial Rules and Treasury Rules, whereas the MSSDS is registered as a Society under the Meghalaya Societies Registration Act and is governed by its own bylaws.

### B. Methodology

2. Several documents like the ADB Financial Management and Analysis of Projects (2005), ADB Financial Due Diligence Methodology Note (2009) and other available project administration manual (PAM) documents were reviewed, post which a detailed checklist was developed covering areas like Governance, Financial Management, Accounting, Budgetary Control, Staffing, Internal & External Audit and Management Information System.

3. Assessment meetings were held with the Department heads and various process owners to gain an understanding of the existing operational and financial processes. The team performed sample walkthrough and document review to validate effectiveness of controls in place and performed a gap analysis and identifies weaknesses in the design of the existing controls.

### C. Key Findings

4. Department wise key findings (i.e., risks and corresponding mitigation measures) have been presented in the table below:

Area/Observation	Potential Risk	Mitigation Measure
<b>Meghalaya State Skill Development Society – (Overall risk rating: High)</b>		
<p><b>Governance &amp; Management</b></p> <ul style="list-style-type: none"> <li>• MSSDS is <b>not registered</b> as a charitable entity under Section <b>12AA</b> of the Income-tax Act, 1961.</li> <li>• MSSDS has <b>not obtained</b> the Permanent Account Number (“<b>PAN</b>”), as per the Income-tax Act, 1961.</li> <li>• MSSDS has <b>not obtained</b> the Tax Deduction Account Number (“<b>TAN</b>”), as per the Income-tax Act, 1961.</li> <li>• MSSDS does not have any documented policies and</li> </ul>	<ul style="list-style-type: none"> <li>• Taxation of income since exemption 12A of the Income – tax Act has not been obtained</li> <li>• Penal consequences for not obtaining the PAN and TAN under the Income – tax Act.</li> <li>• Penal consequences for not obtaining the PAN and TAN under the Income – tax Act.</li> <li>• Following the General Financial Rules of the</li> </ul>	<ul style="list-style-type: none"> <li>• MSSDS to apply for registration with the Income-tax department</li> <li>• MSSDS to apply for registration with the Income-tax department</li> <li>• MSSDS to apply for registration with the Income-tax department</li> <li>• MSSDS to develop its own policies and procedures.</li> </ul>

Area/Observation	Potential Risk	Mitigation Measure
<p>procedures for its own, however we were informed currently MSSDS follow policies and procedures as defined in the Meghalaya General Financial Rules</p>	<p>Govt. of Meghalaya and lack of its own relevant policies and procedures may result in inconsistencies in the maintenance of financial and program records by the staff of MSSDS</p>	
<p><b>Fund Flow</b></p> <ul style="list-style-type: none"> <li>• MSSDS has recently been formed and does not have prior experience of undertaking projects of similar magnitude.</li> </ul>	<ul style="list-style-type: none"> <li>• Low utilisation of funds</li> </ul>	<p>To ensure quick roll out of the Skills Challenge Fund ('SCF'), operation guidelines have already been developed which include the following:</p> <ul style="list-style-type: none"> <li>• Outreach mechanism</li> <li>• Application process for SCF;</li> <li>• Eligible sectors for SCF;</li> <li>• Organisation eligibility criteria;</li> <li>• Proposal format and submission instructions;</li> <li>• Parameters for assessment of technical and financial proposals;</li> <li>• Contracting arrangements</li> <li>• Periodic monitoring mechanism;</li> <li>• Periodic reporting mechanism;</li> <li>• Grant closeout procedures.</li> </ul>
<p><b>Accounting Policies &amp; procedures, Budgetary Control and Payments:</b></p> <ul style="list-style-type: none"> <li>• Since MSSDS currently has only three staff members which include the Chief Executive Officer, Executive Director and Program Office;</li> <li>• Weak budgetary and monitoring mechanisms;</li> <li>• MSSDS does not have any documented policies and procedures for its own, however we were informed currently MSSDS follow policies and procedures as defined in the Meghalaya General Financial Rules</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate segregation of duties;</li> <li>• Risk of potential mismanagement of grant funds due to inadequate and inexperienced staff at MSSDS</li> <li>• Following the General Financial Rules of the Govt. of Meghalaya and lack of its own relevant policies and procedures may result in inconsistencies in the maintenance of financial and program records by the staff of MSSDS</li> </ul>	<ul style="list-style-type: none"> <li>• Additional staff requirement has already been worked out, their roles and responsibilities have been defined and the Government of Meghalaya has passed a notification approving a Project Implementing Unit through Notification No. FEA.126/09/47 dt. 5<sup>th</sup> October 2012 (for details kindly refer detailed note on SCF). MSSDS is coming out with a detailed notification with the terms of reference for the relevant positions and will ensure immediate recruitment efforts.</li> <li>• To have greater monitoring over implementation of the project, Government of Meghalaya has constituted following committees: <ul style="list-style-type: none"> <li>a. Project Steering Committee (PSC)</li> </ul> </li> </ul>

Area/Observation	Potential Risk	Mitigation Measure
		<ul style="list-style-type: none"> <li>b. Project Implementation Unit (PMU)</li> <li>c. District Project Monitoring Units (DPMU)</li> <li>• MSSDS to develop its own policies and procedures.</li> </ul>
<b>Internal Audit</b> There is no system of any internal audit within MSSDS.	Inexistence of an internal audit department may result in potential risk of mismanagement of funds	MSSDS to appoint a local firm of Chartered Accountants to carry out periodic Internal Audit.
<b>External Audit</b> MSSDS is yet to appoint an external auditor to carry out annual statutory of the organisation.	Potential violation of applicable laws and regulations	MSSDS to appoint a local firm of Chartered Accountants to carry out periodic External Audit.
<b>Information System</b> MSSDS currently maintains manual books of accounts, however going forward manual book keeping may not be sufficient given the expected volume of transactions and funds that will be handled.	<ul style="list-style-type: none"> <li>• Risk of potential errors in financial records since manual books of accounts are maintained by the organisation;</li> <li>• Real time information may not available;</li> </ul>	MSSDS is considering to migrate to a computerized accounting software which will minimize the risk of errors in financial records as well as will reduce the manual effort and time involved in maintaining of financial records
<b>Department of Finance and Department of Education – (Overall risk rating: Medium)</b>		
<b>C&amp;AG Audit findings</b> Weak financial management and budgetary control procedures	Lower utilisation rate	To have greater monitoring over implementation of the project, Government of Meghalaya has constituted following committees: <ul style="list-style-type: none"> <li>a. Project Steering Committee (PSC)</li> <li>b. Project Management Unit (PMU)</li> <li>c. Project Implementation Units (PIUs)</li> <li>d. District Project Monitoring Units (DPMU)</li> </ul>
<b>Information System</b> Manual books of accounts are being maintained	Risk of potential errors in financial records since manual books of accounts are maintained by the organisation	The Department of Finance and Department of Education is in the process of migrating to computerized accounting package ('NIC') which will minimize the risk of errors in financial records as well as will reduce the risk related to manually recording the transactions and time involved in maintaining of financial records

## FINANCIAL MANAGEMENT ASSESSMENT

<b>Name of Implementing Partner/Agency :</b>	Department of Finance Meghalaya	<b>Date of review:</b>	04/10/2012		
<b>Summary of Risks related to the financial management capacity of the Implementing partner</b>					
Please refer to subsequent pages for questions for each area that should be completed and summarized in the sections below.					
	<b>Risk Assessment</b>				
	H	S	M	L	Comments
1. Governance & Management				√	Refer para 1.1.1
2. Funds Flow				√	Refer para 1.1.2
3. Staffing				√	Refer para 1.1.3
4. Accounting Policies and Procedures		√			Refer para 1.1.4
5. Internal Audit			√		Refer para 1.1.5
6. External Audit				√	Refer para 1.1.6
7. Reporting and Monitoring				√	Refer para 1.1.7
8. Information systems				√	Refer para 1.1.8
<b>Inherent Risk</b>					
List major specific issues identified in the assessment of the country's public financial management system (macro-assessment), or specific risks related to the nature or operation of the overall Implementing partner			<p><b>Governance</b></p> <p>The Department of Finance does not have a separate legal status since it functions as a part of the State department machinery.</p> <p><b>Staffing</b></p> <p>The review team was informed that the trainings provided by the Meghalaya State Training Institute to the department's finance staff was not regular in the past which may result in unawareness amongst the staff and inconsistencies in the policies and procedures across the departments.</p> <p><b>Accounting policies and procedures – cash and bank</b></p> <p>It was noted that the Department does not prepare bank reconciliation statements. However, year end fund reconciliation is prepared by the department of</p>		

	<p>Audit General of Meghalaya which performs a three way match of financial records of the relevant Department, Treasury records and the AG department's records.</p> <p><b>Safe guard over assets</b></p> <p>It was noted that none of the assets were insured by the Department. By virtue of being a government department, they are not mandated to obtain the insurance of the assets.</p> <p><b>Internal audit</b></p> <p>There is no internal audit function in the Department of Finance. However, the department is subject to the yearly audit of Audit General of Meghalaya, in which all financial transactions are review and subsequently the financial statements are finalized, thereby diminishing the need for an internal audit function.</p> <p><b>Information System</b></p> <p>Manual books of accounts are maintained by the Department of Finance. Since books of accounts are maintained manually, financial reports cannot be generated on real time basis and the records are prone to manual errors.</p>				
<b>Overall Risk assessment</b>	H	S	(M)	L	<b>Low (L)</b>
<b>H- High; S- Significant; M- Moderate; L- Low</b>					

## Financial Management Questionnaire

### 1.1.1 Governance & Management

Subject Area	Yes	No	N/A	Remarks
1. Is the Implementing Partner or agency (IP) legally registered? Please note the legal status/registration of the entity			√	<p>The Department of Finance (hereinafter referred to as 'DoF') is not a legally registered entity. The Department of Finance functions as a part of the State department machinery and is the nodal finance agency at the State level. It is governed by the existing rules and regulations of the Meghalaya Government Financial Rules ('GFR'). The DoF has following sub Departments:-</p> <ul style="list-style-type: none"> <li>• Finance (A.F) Department</li> <li>• Finance Pension (Cell)</li> <li>• Finance (Budget) Department</li> <li>• <b>Finance (Economic Affairs) Department</b></li> <li>• Finance (Establishment) Department</li> <li>• Finance (Expenditure Control) Department</li> <li>• Finance (Pay Revision) Department</li> <li>• Examiner of Local Accounts</li> </ul> <p>Based on our limited interaction, it was informed that ADB funds will be managed by Finance (Economic Affairs) Departments. The Department is primarily meant for effecting proper financial administration in the State. The detailed organization structure of the Finance (Economic Affairs) Department has been schematically presented in <b>Annex 2</b>.</p>
2. Describe the governance structure of the IP.			√	Kindly refer to Annex 2.
3. Is the governing body for the IP independent? Review the expertise and experience of the Board members to ascertain that the members understand the company's business operations, strategic initiatives and major transactions and may present alternate views.			√	The governing structure of the Finance (Economic Affairs) Department has been laid down by the Government of Meghalaya. Kindly refer Annexure 2 for details.
4. What is frequency of Board meetings? Are these meetings minuted?			√	Not applicable.
5. Does the IP have adequate policies and procedures to guide its operations? Comment on the adequacy of these procedures?	√			The functioning of Department of Finance is governed by the policies and procedures as defined in the "Meghalaya Government Financial Rules ('GFR') and Delegation of Finance Power Rules 2006".

Subject Area	Yes	No	N/A	Remarks
6. Does these policies and procedures provide for a code of conduct for conflict of interest resolution, avoiding instances of illegal or other improper payments, corruption, fraud, misappropriation of funds, un ethical and immoral behavior ? Has the IP defined key areas of authority and responsibility?		√		GFR & Delegation of Finance Power Rules 2006 do not provide for any Conflict of Interest policy to be adhered to by the employees.
7. Does the IP follows ethical guidelines in dealings with employees, suppliers, investors, creditors, insurers, competitors, and auditors?	√			DoF does not undertake any direct procurement of goods; all requests are placed through the stores department. All dealing with the employees are governed as per the state service rules (Meghalaya Fundamental Rules & Subsidiary Rules).
8. Are relationships with third parties periodically reviewed to ensure the entity maintains associations only with reputable vendors/agencies?			√	Kindly refer above point.
9. Are changes to establish relationships with external parties (attorneys, auditors, and bankers) are approved by an appropriate level of management?			√	Not applicable as majority of these activities are handled through other government departments.
10. Does the Board constructively challenge management's decisions, strategic initiatives, major transactions and explanations of past results?			√	GFR and Delegation of Finance Power Rules 2006 provides for adequate approval mechanism.
11. Are the employees aware of and understand the policies regarding acceptable behavior. Is the importance of ethical behavior is discussed with newly hired employees through orientations or interviews?	√			All matters relating to employees have been adequately covered under the State Service Rules (Meghalaya Fundamental Rules & Subsidiary Rules).

Subject Area	Yes	No	N/A	Remarks
12. When improper practices are reported to Board, are they communicated to all appropriate parties and dealt with in a thorough and timely manner?	√			GFR provides for adequate provisions to deal with such matters.
13. Does the Board receive periodic reports on identified significant risks and the results of actions taken to address them?			√	Not Applicable
14. Who 'regulates' the financial performance of the IP and its adherence to norms?	√			The financial performance of the DOF is regulated by the Additional Chief Secretary (Finance).
<b>Risk Assessment (Governance and Management)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.2 Funds Flow

Subject Area	Yes	No	N/A	Remarks
1. Can the entity receive and transfer funds? Are the arrangements to transfer the funds to the entity satisfactory	√			Department of Finance is an extended arm of Government of Meghalaya. The Department of Finance plays the key role in consolidation of the state budget and presenting it to the State Assembly for approval. It is also responsible for allocations of funds to other Administrative/ Head of Departments based on the approved budgets.  Being a part of the State Government, the DoF can receive funds from the Government of India through a treasury account as per Rule 80 of General Financial Rules.
2. Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from IFIs such as WB, ADB, and IFC etc.?			√	During our limited interaction with the key staff members of the DoF, no such problems were brought to the notice of the review team.
3. In the past, has the entity had any problems in the management of funds? Please describe		√		DoF does not have experience of handling any similar project.



Subject Area	Yes	No	N/A	Remarks
4. How does the IP manage fund flow with other departments/ agencies? Does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?	√			Funds are transferred to other departments based on the pre-decided allocations from the State government as defined in the Budget Manuals <sup>1</sup> and approved in the assembly.  Further, for the purpose of monitoring and tracking the use of funds, the Finance (Economic Affairs) Department obtains periodic financial and programmatic statements from heads of departments as per Schedule II of Delegation of Financial Power and Rules 2006.
5. Has the IP established controls and procedures for flow of funds, financial information, accountability and audits in relation to the other departments or entities? Does the information among the different offices/agencies flow in an accurate and timely fashion? Are periodic reconciliations performed among the different offices/agencies? Please describe the process.	√			DoF follows the policies and procedures as defines in the GFR.
6. Does the charter/ articles/ memorandum of the entity permit it to borrow funds from (a) Government entities (b) Commercial banks or Financial Institutions and (c) Retail investors	√			Government of Meghalaya can borrow funds from commercial or financial institutions only for development activities to be carried out in the state. In case where the cash balance maintained with the Treasury accounts falls short of the minimum level defined by Government of India, then the DoF can borrow funds up to INR 60 lakhs from the Reserve Bank of India on behalf of the State Government.
7. Does the charter/ articles/ memorandum of the entity permit it to lend funds through debt or debt-like instruments to (a) Government entities (b) Commercial entities (c) NGOs	√			DoF is not allowed to lend funds through debt or debt like instruments.
8. Does the charter/ articles/ memorandum of the entity permit it to invest equity or in equity-like instruments in (a)	√			DoF is not allowed to invest in equity or equity like instruments.

<sup>1</sup> Government of Meghalaya is adhering to the budget preparation guidelines as provided in the Assam Budget Manual.

Subject Area	Yes	No	N/A	Remarks
Government entities (b) Commercial entities (c) NGO				
<b>Risk Assessment (Funds Flow)</b>	<b>H</b>	<b>S</b>	<b>M</b>	(L)

### 1.1.3 Staffing

Subject Area	Yes	No	N/A	Remarks
1. Is the organizational structure of the accounting department appropriate for the level of financial volume envisaged by the ADB grant? Attach an organization chart.	√			DoF has adequately qualified and experienced staff, working under the supervision of the Additional Chief Secretary, Finance to discharge the financial responsibilities towards various government aided projects. The Additional Chief Secretary, Finance, is the head of State Finance department who is expected to oversee the process, approval and reporting responsibilities of the institution. <i>(Refer the Organization Chart in Annex 2 for details)</i>
2. Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience.	√			DoF has adequate experienced and qualified staff selected through Meghalaya Public Service Commission following stringent selection procedures. We were informed that the minimum qualifications required for the DoF staff is a Masters degree in Economics or Mathematics or Statistics.  <i>However, the CVs and Job description of the staff of the Implementing Partner were not made available to us.</i>
3. Is the IP finance and accounts function staffed adequately? Does the IP envisage hiring of additional resources with respect to the ADB grant?	√			Finance (Economic Affairs) Department is adequately staffed to manage the project.
4. Are accounts and finance staff adequately qualified and experienced?	√			Same as above
5. Are accounts and finance staff familiar with IPs policies and procedures?	√			Staff has adequate knowledge of the policies and procedures as defined in the GFR.
6. Are these permanent staff members? If not, what is the duration of the contract of finance and accounts staff?	√			The team was informed that all the employees are permanent staff of the State Government and the retirement age is 58 years.

Subject Area	Yes	No	N/A	Remarks
7. Is there a training policy for the finance and accounting staff? Please describe.	√			The Meghalaya State Training Institute is responsible for conducting the trainings for the staff.  <i>We were informed that these trainings are not a regular feature and are provided on an ad-hoc basis at the State level.</i>
<b>Risk Assessment (Staffing)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

#### 1.1.4 Accounting Policies and Procedures

Subject Area	Yes	No	N/A	Remarks
1. Does the entity have an accounting system that allows for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?	√			Reserve Bank of India acts as the banker to the State Government. Funds received from Government of India through the Reserve Bank of India are kept in a treasury account maintained with the State Bank of India.  All expenses pertaining to funds allocated by the State government are incurred strictly in accordance with the approved budget. In order to incur an expense, a <b>note sheet</b> is prepared wherein all details pertaining to the particular transaction are recorded and approved on a plain paper initiated by Lower Division Assistant and subsequently approved by the appropriate authorities i.e. the Deputy Director, Joint Director, Additional Director and Director for comments and approval. Once it is approved, it is submitted to Drawing and Disbursing Officer ('DDO') for the release of payments.
2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly explained?	√			Same as above
3. Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?	√			Government maintains all accounts as per approved and allocated budget. Each of the budget head is given a unique number on the basis of which expenditure is monitored and consolidated.
4. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	√			All documents are retained on a permanent basis. After tagging these documents, are preserved in the Government record room.

<b>Segregation of duties</b>				
5. Are the following functional responsibilities performed by different units or persons: a) authorization to execute a transaction; b) recording of the transaction; and c) custody of assets involved in the transactions? Explain the authority matrix	√			GFR and Delegation of Financial Powers 2006, provides for adequate segregation of duties, policies and procedures, authorizations limits etc.
6. Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?	√			Properly segregated and defined in the GFR.
<b>Budgeting System</b>				
7. Are approvals from variations from the budget required in advance or on post facto basis?	√			<p>Expenses can be incurred for approved budget heads only, however, in case where the provision made for certain items of expenditure prove inadequate/ not budgeted, prior approval from Finance Minister is required to be obtained by the Department. Any additional expenditure will be met either from the Contingency fund or Supplementary fund which needs to be ratified/ approved in the State Assembly.</p> <p>As per Rule 38 of the Meghalaya rules of executive business empowers the Finance Department to sanction or authorize any re-appropriation with a Grant from one Major. Minor or sub-head to another, subject to the certain restrictions. Kindly refer Annexure 3 for further details/restrictions</p>
8. Who is responsible for preparation and approval of budgets?	√			<p>Budgets are first prepared by the respective function heads of the finance department and later sent to the Economic Affairs Department for consolidation. The consolidated budgets are then presented to the Additional Chief Secretary, Finance, who approves the consolidated budget and sends it to the State Planning cell for approval and sanction.</p> <p>It was also informed that the State Finance Department is responsible for preparing the budget estimates (Receipt and Expenditure) and revised estimates for or all administrative departments.</p>
9. Are procedures in place to plan activities, collect information from the units in charge of the different components and prepare budgets?	√			<i>Refer to item number 8 above</i>

10. Are the plans and budgets of activities realistic, based on valid assumptions and developed by knowledgeable persons?	√			<i>Refer point no 8 above</i>
11. Are actual expenditures compared to the budget with reasonable frequency and explanations required for significant variations from the budget? Are approvals from variations from the budget required in advance or on post facto basis?	√			<i>Refer point no 7 &amp; 8 above</i>
<b>Payments</b>				
12. Do invoice processing procedures provide for: <ul style="list-style-type: none"> <li>• Copies of purchase orders and receiving reports to obtained directly from issuing authority/departments?</li> <li>• Comparison of invoice quantities, prices and terms with those indicated on the purchase orders and with records of goods actually received?</li> <li>• Comparison of invoice quantities with those indicated on the receiving reports?</li> <li>• Checking accuracy of calculations?</li> </ul>	√			Secretariat Administration Department is responsible for processing vouchers/ invoices on behalf of the Department of Finance.
13. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	√			The Secretariat Administration Department defaces invoices by stamping them as "Passed for Payment".
14. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	√			Payroll is prepared and disbursed by the Secretariat Administration Department.
<b>Policies and Procedures</b>				
15. Describe the basis of accounting (e.g. Cash, accrual)?	√			Government departments follow single entry cash basis of accounting of transactions.
16. Does the entity have adequate policies and procedures manual to guide activities and ensure staff	√			DoF is governed/ guided by the GFR and Delegation of Finance Power Rules 2006.

accountability?			
17. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	√		As mentioned above, since these Rules have been notified by the Government of Meghalaya, only the Government has the authority to notify new Rules or make any amendments thereafter which are approved by the State assembly.
18. Does the documented process include the following? (1) A code of conduct to avoid occurrence or perceptions of conflicts of interest (2) Methods of procurement and when different methods should be applied, (3) Procedures for requests for tenders, (4) Procedures for bid evaluation, (5) Procedures that are transparent and competitive. Does IP have a good track record of following these procedures?	√		GFR provides for detailed policies and procedures to be adhered by any department.
<b>Cash and Bank</b>			
19. Indicate in remarks /comments section the names and positions of the authorized signatories on the bank accounts	√		A treasury account is maintained with the State Bank of India. The Deputy Secretary Finance (EA) acting as a Drawing & Disbursement Officer directs instruction to state treasury for issuance of cheque for payment to vendors.
20. Are there appropriate controls over management of petty cash including limits over the maximum levels of petty cash held?	√		DoF does not handle petty cash, all transactions are undertaken through treasury
21. Are there appropriate controls built in to the banking arrangements, including for example proper authorization of disbursements, double signatures on cheques and transfers, use of account payee cheques and conduct of regular bank reconciliations	√		Adequate controls over the banking arrangements were observed.
22. Are all unusual items on the bank reconciliation reviewed and approved by responsible official?		√	No bank reconciliation statements are prepared by the IP. However, during the annual audit, a reconciliation of funds is prepared between the transactions recorded by the Treasury, Finance Department and the office of the Audit general.
<b>Safeguard over Assets</b>			

23. Is there a system of safeguards to protect assets from fraud, waste, and abuse?	√			<p>The GFR lays down the following controls for the maintenance and safeguard of fixed assets:</p> <ul style="list-style-type: none"> <li>• Maintenance of a Fixed Asset Register</li> <li>• There is a process for physical verification of fixed assets to be performed at least once a year.</li> </ul> <p>DoF maintains a “Stock Register” to keep track of the assets and stock. The Stock register is updated as and when an asset is procured by the Implementing Partner. We were also informed that an annual physical verification of assets is also undertaken. However, the above mentioned register and the physical verification report were not made available to us.</p>
24. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	√			Stock registers were updated.
25. Are there periodic physical verification of inventories of fixed assets and stocks?	√			We were informed that annual physical verification of assets is undertaken during the AG Audit. However no such report was shared with us.
26. Are assets sufficiently covered by insurance policies?		√		None of the assets have been insured.
<b>Risk Assessment (Accounting Policies and Procedures)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

*Note: Even though the department has well document policies and procedures, however in view of the C&AG audit findings on budgetary control, financial management and payments, the overall rating has been increased to “Substantial”. Kindly refer section 1.1.6 on External Audit on audit findings.*

### 1.1.5 Internal Audit

Subject Area	Yes	No	N/A	Remarks
1. Is there an internal audit department in the entity or an internal auditor?		√		DoF does not have any system of Internal audit.
2. What are the qualifications and experience of audit department or internal auditor?		√		Refer point no. 1 above
3. Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?		√		Refer point no. 1 above
4. Assess the quality and usefulness of such reviews. Consider quality		√		Refer point no 1 above

Subject Area	Yes	No	N/A	Remarks
and frequency of audits and follow up.				
5. Are actions taken on internal audit findings? Has the IP management subsequently followed up and addressed these issues		√		Refer point no 1 above
<b>Risk Assessment (Internal Audit)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.6 External Audit

Subject Area	Yes	No	N/A	Remarks
1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	√			DoF is subject to an annual audit by the Office of the Accountant General, Meghalaya ('AG') which conducts the audit of all Government departments.
2. Are there any delays in the audit of the entity? When is the audit reports issued?	√			AG undertakes the annual audit as per their pre-defined schedule and audit reports are normally issued within two months from the date of the visit.
3. Is the audit of the entity conducted according to the appropriate standards on auditing?	√			Annual audit is undertaken as per the procedures defined under the GFR. AG also compares the achievements vis-à-vis the fiscal targets set by the State Government under the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006.
4. Were there any major accountability issues brought out in the audit report of the past three years?	√			<p>Report of the Comptroller and Auditor General of India on State Finances for the year ending March 31, 2011 was reviewed and some of the observations have been provided below:</p> <ul style="list-style-type: none"> <li>The financial management and budgetary control of the Government was not satisfactory. Government presented an ambitious budget of INR 5758.81 crores for the year 2010-2011, of which it could incur an expenditure of INR 4875.56 crore resulting in an overall shortfall in disbursements of INR 883.25 crore (15.34% of the total provision).</li> <li>There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were not surrendered or surrendered on the last day of the year leaving no scope for utilizing these for other development purposes;</li> </ul>



Subject Area	Yes	No	N/A	Remarks
				<ul style="list-style-type: none"> <li>There were deficiencies in budgetary procedure and expenditure control. The estimates for receipts and expenditure were prepared without adequate due diligence in observing prescribed budgetary regulations.</li> </ul>
5. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	√			<p>Some of the recommendations given by CAG are :</p> <ul style="list-style-type: none"> <li>Efforts should be made by all the departments to submit realistic budget estimates keeping in view the trends in receipts and expenditure in order to avoid large scale savings, re-apportionments and surrender at the fag end of the year.</li> <li>Reapportionment should be judicious supported by justified reasons to avoid excessive and insufficient funds</li> </ul> <p>Finance departments should ensure strict compliance of codal provisions as well as its own instructions of budgetary provisions.</p>
<b>Risk Assessment (External Audit)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

Note: The effect of audit findings has been taken in section 1.1.4.

### 1.1.7 Reporting and Monitoring

Subject Area	Yes	No	N/A	Remarks
1. Are financial statements prepared for the entity?	√			Quarterly financial statements are prepared by the Department of Finance (EA) for submission to the Central Government and Donors.
2. What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	√			Refer point no 1 above.
3. Are control procedures in place to ensure the accuracy and integrity of data forming the basis for reports?	√			Sufficient care is taken to ensure the integrity of data forming the basis for reports.
4. Does the reporting system have the capacity to link the financial information with the physical progress? If separate systems are used to gather and compile physical data,	√			DoF prepares a Project Plan defining the physical targets and the budget required for achievement of these targets. The progress against the targets and budget is reported and monitored on a quarterly basis.

Subject Area	Yes	No	N/A	Remarks
what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?				
5. Does the IP have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how are to be used?	√			Refer point no 1 above
6. Are financial management reports used by management?	√			A utilization certificate is received from various Government departments and reviewed by the Additional Chief Secretary-Finance. These reports are used by the Additional Chief Secretary-Finance to monitor the variance between the consolidated expenditure and receipts and to take necessary corrective actions (if any).
7. Are financial reports prepared directly by automated accounting system or are they or are they prepared by spreadsheets or some other means? Are these reports reviewed by a responsible official of the IP?		√		Currently, the internal financial reports are prepared by the DoF in excel spreadsheets by drawing relevant information from the utilization certificates received from various departments.
<b>Risk Assessment (Reporting and Monitoring )</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.8 Information Systems

Subject Area	Yes	No	N/A	Remarks
1. Is the financial management system computerized?		√		DoF currently maintains manual books of accounts, however, we were also informed, that DoF is under the process of migrating from manual accounting to computerized accounting on the software prescribed by the National Information Centre (NIC).
2. Can the system produce the necessary financial reports?			√	Since manual accounts are maintained, MIS is not system generated.
3. Are the staffs adequately trained to maintain the system?			√	Not applicable as manual records are being maintained.
4. Does the management organization and			√	Not applicable as manual records are being maintained.

Subject Area	Yes	No	N/A	Remarks
processing system safeguard the confidentiality, integrity and availability of the data?				
<b>Risk assessment (Information Systems)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

## SOURCES OF INFORMATION

In performing this review:

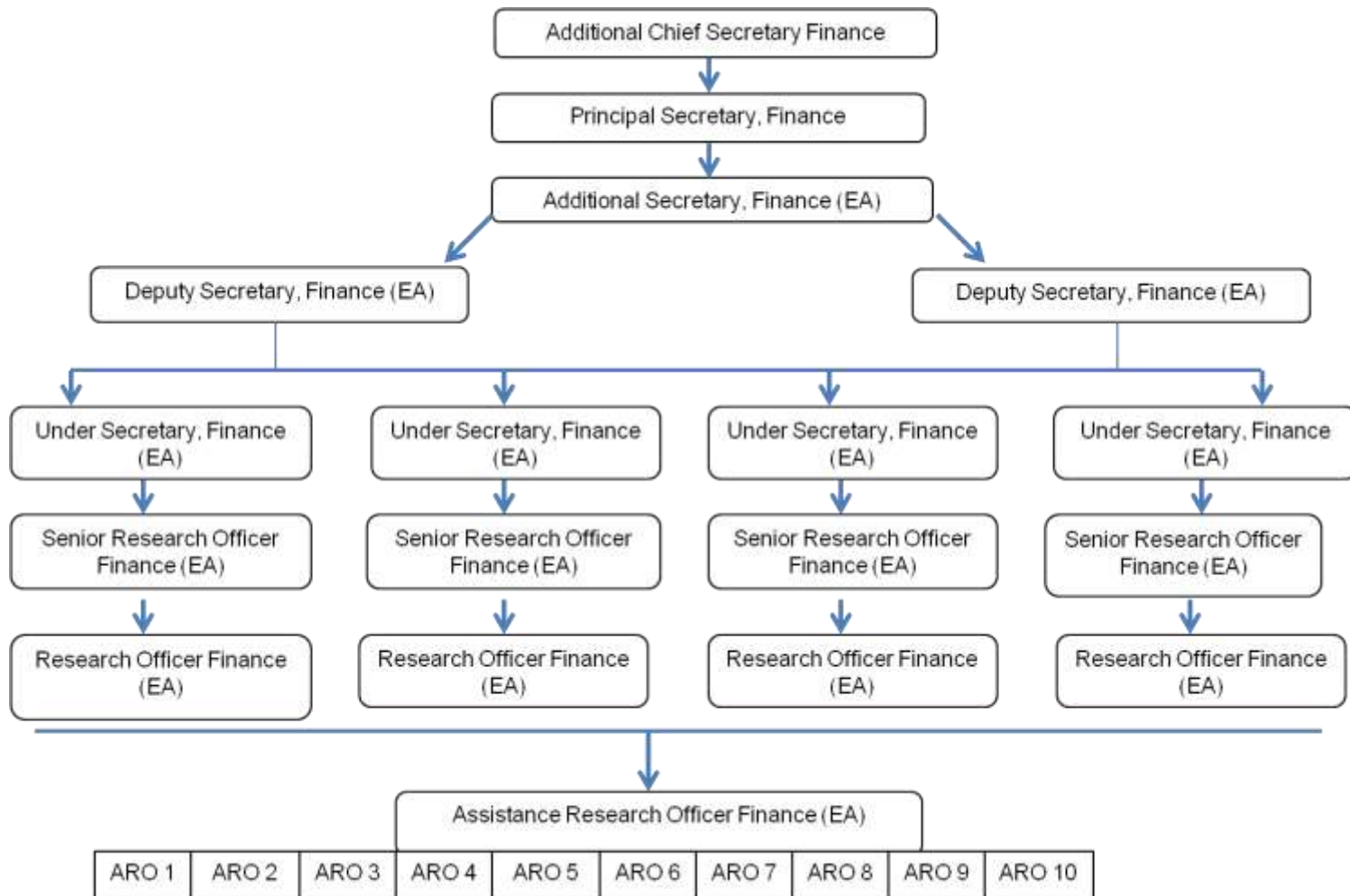
1. We communicated with the following individuals from the Partner:

- Shree B.K. Dev Verma- Additional Chief Secretary, Finance
- Smt D.T. Kharsihing- Additional Secretary, Finance
- Shree E.E.S. Lamre- Under Secretary, Finance (EA)
- Shree A Wahlang. Najir Secretariat- Meghalaya

2. We reviewed the following documents, books and records:

- Meghalaya Financial Rules.
- Delegation of Finance Power Rules 2006
- Meghalaya Fundamental Rules & Subsidiary Rules
- Rules of Executive Business of the Government of the State of Meghalaya
- List of existing staff at Department of Finance (Economic Affairs)

**STRUCTURE OF FINANCE (ECONOMIC AFFAIRS) DEPARTMENT**



**FUNCTION OF FINANCE DEPARTMENT AS PER RULE 38 OF “MEGHALAYA RULES OF EXECUTIVE BUSINESS EMPOWER**

- Permissible re-appropriation can be sanctioned at any time with the year but not after expiry of the year.
- No re-appropriation shall be made for any purpose whatsoever from the supplementary grant voted by the assembly for a definite purpose, as to ensure that a supplementary grant shall be used for the purpose for which it is voted and for no other. The same principle applies to supplementary charged appropriation.
- No re-appropriation is admissible from a charged head to a voted head or vice-versa.
- No re-appropriation is admissible from a capital head to revenue head or vice-versa.
- Re-appropriation to the head in excess of 25 percent of the original provision made under the budget may be made only with the prior consultation with the Account General.

## FINANCIAL MANAGEMENT ASSESSMENT

<b>Name of Implementing Partner/Agency :</b>	Department of Education	<b>Date of review:</b>	05/10/2012		
<b>Summary of Risks related to the financial management capacity of the Implementing partner</b>					
Please refer to subsequent pages for questions for each area that should be completed and summarized in the sections below.					
	<b>Risk Assessment</b>				
	H	S	M	L	Comments
9. Governance & Management				√	Refer para 1.1.1
10. Funds Flow				√	Refer para 1.1.2
11. Staffing				√	Refer para 1.1.3
12. Accounting Policies and Procedures, Budgetary Control and Payments		√			Refer para 1.1.4
13. Internal Audit			√		Refer para 1.1.5
14. External Audit				√	Refer para 1.1.6
15. Reporting and Monitoring				√	Refer para 1.1.7
16. Information systems				√	Refer para 1.1.8
<b>Inherent Risk</b>					
List major specific issues identified in the assessment of the country's public financial management system (macro-assessment), or specific risks related to the nature or operation of the overall Implementing partner			<p><b>Governance</b></p> <p>The Department of Education does not have a separate legal status since it functions as a part of the State department machinery.</p> <p><b>Staffing</b></p> <p>The review team was informed that the trainings provided by the Meghalaya State Training Institute to the department's finance staff was not regular in the past which may result in unawareness amongst the staff and inconsistencies in the policies and procedures across the departments.</p> <p><b>Accounting policies and procedures – cash and bank</b></p> <p>It was noted that the Department does not prepare bank reconciliation statements. However, year end</p>		

	<p>fund reconciliation is prepared by the department of Audit General of Meghalaya which performs a three way match of financial records of the relevant Department, Treasury records and the AG department's records.</p> <p><b>Safe guard over assets</b></p> <p>It was noted that none of the assets were insured by the Department. By virtue of being a government department, they are not mandated to obtain the insurance of the assets.</p> <p><b>Internal audit</b></p> <p>There is no internal audit function in the Department of Education. However, the department is subject to the yearly audit of Audit General of Meghalaya, in which all financial transactions are review and subsequently the financial statements are finalized, thereby diminishing the need for an internal audit function.</p> <p><b>Information System</b></p> <p>Manual books of accounts are maintained by the Department of Education. Since books of accounts are maintained manually, financial reports cannot be generated on real time basis and the records are prone to manual errors.</p>				
<b>Overall Risk assessment</b>	H	S	(M)	L	LOW (L)
<p><b>H-</b> High; <b>S-</b> Significant; <b>M-</b> Moderate; <b>L-</b> Low</p>					



## Financial Management Questionnaire

### 1.1.1 Governance & Management

Subject Area	Yes	No	N/A	Remarks
1. Is the Implementing Partner or agency (IP) legally registered? Please note the legal status/ registration of the entity	√			<p>The Department of Education ('DOE') is not a legally registered entity. DOE functions as a part of the State department machinery and is the nodal agency for education in the State of Meghalaya. It is governed by the existing rules and regulations of the Meghalaya Government Financial Rules ('GFR'). The State Education Department has the following Directorates which came into existence vide a Govt. notification in 2009:</p> <ul style="list-style-type: none"> <li>• Directorate of Higher and Technical Education.</li> <li>• Directorate of Educational Research and Training.</li> <li>• Directorate of School Education and Literacy.</li> </ul> <p>The detailed organization structure of the respective Directorate has been systematically presented in Annex 3 (i), (ii) &amp; (iii). The functions of the above mentioned Directorates have been defined Annex 4.</p>
2. Describe the governance structure of the IP.	√			Refer Annexure 3 (i), (ii) & (iii)
3. Is the governing body for the IP independent? Review the expertise and experience of the Board members to ascertain that the members understand the company's business operations, strategic initiatives and major transactions and may present alternate views.			√	The governance structure of the Directorate of Education is as defined by the Government of Meghalaya. Kindly refer Annex 3 (i), (ii) & (iii) for details.
4. What is frequency of Board meetings? Are these meetings minuted?			√	Not applicable.
5. Does the IP have adequate policies and procedures to guide its operations? Comment on the adequacy of these procedures?	√			The functioning of the Department of Education and its Directorates follow the "Delegation of Finance Power Rules 2006" issued by the Government of Meghalaya.
6. Does these policies and procedures provide for a code of conduct for conflict of interest resolution, avoiding instances of illegal or other improper payments, corruption, fraud, misappropriation of funds,		√		Delegation of Finance Power Rules 2006 does not provide for any Conflict of Interest policy to be adhered to by the employees.

Subject Area	Yes	No	N/A	Remarks
un ethical and immoral behavior ? Has the IP defined key areas of authority and responsibility?				
7. Does the IP follows ethical guidelines in dealings with employees, suppliers, investors, creditors, insurers, competitors, and auditors?	√			All dealings with the staff are governed by the Meghalaya Fundamental Rules & Subsidiary Rules and suppliers are governed by Meghalaya Financial Rules. However, it is also noted that Meghalaya Financial Rules is silent on investors, creditors, insurers etc.
8. Are relationships with third parties periodically reviewed to ensure the entity maintains associations only with reputable vendors/agencies?	√			DOE can purchase (stationery, computer items, spares etc) only from Government owned stores or approved firms at Government approved rates.
9. Are changes to establish relationships with external parties (attorneys, auditors, and bankers) are approved by an appropriate level of management?			√	Not applicable. Kindly refer above
10. Does the Board constructively challenge management's decisions, strategic initiatives, major transactions and explanations of past results?	√			GFR and Delegation of Finance Power Rules 2006 provides for adequate approval mechanism.
11. Are the employees aware of and understand the policies regarding acceptable behavior. Is the importance of ethical behavior is discussed with newly hired employees through orientations or interviews?	√			All matters relating to employees have been adequately covered under the State Service Rules (Meghalaya Fundamental Rules & Subsidiary Rules).
12. When improper practices are reported to Board, are they communicated to all appropriate parties and dealt with in a thorough and timely manner?	√			GFR provides for adequate provisions to deal with such matters.
13. Does the Board receive periodic reports on identified significant risks and the results of actions taken to address them?			√	Not applicable

Subject Area	Yes	No	N/A	Remarks
14. Who 'regulates' the financial performance of the company and its adherence to norms?	√			Director of Education is responsible for financial performance and adherence to the applicable norms.
<b>Risk Assessment (Governance and Management)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.2 Funds Flow

Subject Area	Yes	No	N/A	Remarks
1. Can the entity receive and transfer funds? Are the arrangements to transfer the funds to the entity satisfactory	√			DOE can receive funds from Government of India in treasury account maintained with State Bank of India. The funds get allocated to the respective departments ( <i>as per the approved budget</i> ) by the State Finance Department through circulars, orders or notifications.  Director of the Department of Education has complete powers to sanction Grant-in-Aid to local bodies, private parties/individuals and districts councils subject to specific provisions in the sanctioned scheme as per Delegation of Financial Power and Rules 2006.  These provisions can be referred from the <i>Schedule-II "General powers delegated to Head of Department"</i> (Delegation of Financial Power and Rules 2006)
2. Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from IFIs such as WB, ADB, and IFC etc.?			√	No such problems were observed/ brought to our notice during our limited interaction with the IP's staff.
3. In the past, has the entity had any problems in the management of funds? Please describe			√	No such problems were brought to our notice during our limited interaction with the DOE staff.
4. How does the IP manage fund flow with other departments/ agencies? Does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?	√			Funds are transferred to the State University and Government colleges in the State as well at the District level. Funds are transferred through the state treasury account to the respective educations units in the State.  Quarterly reports are obtained by the Department of Education to monitor the funds disbursed.
5. Has the IP established controls and procedures for flow of funds, financial information, accountability	√			Funds are transferred as per approved budgets to the Education District Offices through the Treasury Account. To monitor the funds disbursed, the Department of Education obtains

Subject Area	Yes	No	N/A	Remarks
and audits in relation to the other departments or entities? Does the information among the different offices/agencies flow in an accurate and timely fashion? Are periodic reconciliations performed among the different offices/ agencies? Please describe the process.				quarterly progress /financial reports in the format prescribed by the Planning (Budget) cell from the district offices.  Further, an annual reconciliation of the funds is performed between the records maintained by the Treasury, Department of Education's accounts section and the Office of Accountant during the yearly audit which is undertaken by the Accountant General as prescribed by the Meghalaya Financial Rules.
6. Does the charter/ articles/ memorandum of the entity permit it to borrow funds from (a) Government entities (b) Commercial banks or Financial Institutions and (c) Retail investors			√	DOE being an extended arm of Government of Meghalaya can receive funds only from the State Government.
7. Does the charter/ articles/ memorandum of the entity permit it to lend funds through debt or debt-like instruments to (a) Government entities (b) Commercial entities (c) NGOs			√	DOE cannot lend funds through debt or debt-like instruments to (a) Government entities (b) Commercial entities (c) NGOs.  However, as per the Delegation of Finance Power Rules 2006, IP can transfer funds to NGO as Grant in Aid. Refer clause 16 of Delegation of Finance Power Rules 2006.
8. Does the charter/ articles/ memorandum of the entity permit it to invest equity or in equity-like instruments in (a) Government entities (b) Commercial entities (c) NGO			√	DOE cannot invest equity or in equity-like instruments.
<b>Risk Assessment (Funds Flow)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.3 Staffing

Subject Area	Yes	No	N/A	Remarks
1. Is the organizational structure of the accounting department appropriate for the level of financial volume envisaged by the ADB grant? Attach an organization chart.	√			Department of Education has an adequately qualified and experienced finance team, working under the supervision of the Financial Advisor, to handle the financial responsibilities for various government aided projects.
2. Is the level and competency of staff	√			DoE has adequate experienced and qualified staff selected through Meghalaya Public Service

Subject Area	Yes	No	N/A	Remarks
appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience.				Commission following stringent selection procedures. The minimum qualifications required for the staff is a Bachelor degree in any discipline. However, the CVs and Job description of the staff of the Implementing Partner were not made available to us for our review.
3. Is the IP finance and accounts function staffed adequately? Does the IP envisage hiring of additional resources with respect to the ADB grant?	√			DOE is adequately staffed to manage the project.
4. Are accounts and finance staff adequately qualified and experienced?	√			Same as above
5. Are accounts and finance staff familiar with IPs policies and procedures?	√			Staff has adequate knowledge of the policies and procedures as defined in the GFR.
6. Are these permanent staff members? If not, what is the duration of the contract of finance and accounts staff?	√			The team was informed that all the employees are permanent staff of the State Government and retirement age is 58 years.
7. Is there a training policy for the finance and accounting staff? Please describe.	√			The Meghalaya State Training Institute is responsible for conducting the trainings for the staff. <i>We were informed that these trainings are not a regular feature and are provided on an ad-hoc basis at the State level.</i>
<b>Risk Assessment (Staffing)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

#### 1.1.4 Accounting Policies and Procedures

Subject Area	Yes	No	N/A	Remarks
1. Does the entity have an accounting system that allows for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?	√			DOE maintains manual book of accounts for recording the financial transactions. All expenses pertaining to funds allocated by the State government are incurred strictly in accordance with the approved budget. In order to incur an expense, a <b>note sheet</b> is prepared wherein all details pertaining to the particular transaction are recorded and approved on a plain paper initiated by Lower Division Assistant and subsequently approved by the appropriate authorities i.e. the Deputy Director, Joint Director, Additional Director and Director for comments and approval. Once it is approved, it is submitted to Drawing and Disbursing Officer ('DDO') for the release of payments.
2. Are controls in place	√			Same as above

Subject Area	Yes	No	N/A	Remarks
concerning the preparation and approval of transactions, ensuring that all transactions are correctly explained?				
3. Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?	√			Government maintains all accounts as per approved and allocated budget. Each of the budget head is given a unique number on the basis of which expenditure is monitored and consolidated.
4. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	√			All documents are retained on a permanent basis. After tagging these documents, are preserved in the Government record room.
<b>Segregation of duties</b>				
5. Are the following functional responsibilities performed by different units or persons: a) authorization to execute a transaction; b) recording of the transaction; and c) custody of assets involved in the transactions? Explain the authority matrix	√			GFR and Delegation of Financial Powers 2006, provides for adequate segregation of duties, policies and procedures, authorizations limits etc.
6. Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?	√			Properly segregated and defined in the GFR.
<b>Budgeting System</b>				
7. Are approvals from variations from the budget required in advance or on post facto basis?	√			As per Rule 12 (2) of Meghalaya Delegation of Finance Power rules 2006, Heads of Department are authorized to sanction re-appropriation with the heads subordinate to a minor heads, subject to the certain conditions. Refer Annexure 5 for these restrictions.  Expenses can be incurred for approved budget heads only. However, if a case a situation arises where provision made for certain items of expenditure prove inadequate/ not budgeted, prior approval from Department of Finance is required. It was also informed that additional budgets will be met either from Contingency fund or supplementary fund which need to be ratified/ approved by the assembly.
8. Who is responsible for preparation and approval	√			Budgets are first prepared at District offices and sent to each Directorate's for review and

Subject Area	Yes	No	N/A	Remarks
of budgets?				<p>compilation. The consolidated budget i.e. budgets for each Directorate's are then submitted to the Department of Education who approves the same and upon compilation sends the consolidated budget of the Department of Education to the State Planning cell for approval and sanction. The budgets are approved as per the Delegation of Authority provided in the Meghalaya Delegation of Finance Power Rules, 2006.</p>
9. Are procedures in place to plan activities, collect information from the units in charge of the different components and prepare budgets?	√			<i>Kindly refer to point above</i>
10. Are the plans and budgets of activities realistic, based on valid assumptions and developed by knowledgeable persons?	√			<i>Kindly refer to point above</i>
11. Are actual expenditures compared to the budget with reasonable frequency and explanations required for significant variations from the budget? Are approvals from variations from the budget required in advance or on post facto basis?	√			<i>Kindly refer to point above</i>
<b>Payments</b>				
<p>12. Do invoice processing procedures provide for:</p> <ul style="list-style-type: none"> <li>• Copies of purchase orders and receiving reports to obtained directly from issuing authority/departments?</li> <li>• Comparison of invoice quantities, prices and terms with those indicated on the purchase orders and with records of goods actually received?</li> <li>• Comparison of invoice quantities with those indicated on the receiving reports?</li> <li>• Checking accuracy of calculations?</li> </ul>	√			<p>DOE directly procure certain goods within the limits as defined under schedule II of Delegation of Financial power rules 2006. The procurement process has been defined as follows: On receipt of the goods/items from the vendor, the Stores In-charge (from Stores Department) takes custody of the items supplied by the Government Department/ vendor, after verifying the description of the items against the details specified in the work order and certifies the invoice/challans that the goods have been received in proper conditions and as per the description specified in the work order.</p> <p>Thereafter, the invoice is submitted to the Accounts Department for verification of the invoice. Finance department then prepares the note sheet for approval of payments as provision contained in Schedule II of the Delegation of Financial power rules 2006 on which</p>

Subject Area	Yes	No	N/A	Remarks
				Disbursement and Disbursing officer notifies the treasury department to make the payments. It was also informed that once Treasury receives the DDO's approval, it issues a cheque to the concerned vendor. Before processing the vendor payment, the staff at the Treasury do also, check the accuracy of calculations, compare the invoice with the terms agreed in the work order and the remarks of the Stores In charge.
13. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?				All payments are marked as "Passed for Payment". Review and approval date is mentioned on the note-sheet prepared by the Finance/ Stores Department.
14. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	√			Payroll is prepared by the Account Section (Department of Education) which is properly authorized by the Director.
<b>Policies and Procedures</b>				
15. Describe the basis of accounting (e.g. Cash, accrual)?	√			Government departments follow single entry cash basis of accounting of transactions.
16. Does the entity have adequate policies and procedures manual to guide activities and ensure staff accountability?	√			DoE is governed/ guided by the GFR and Delegation of Finance Power Rules 2006.
17. Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	√			As mentioned above, since these Rules have been notified by the Government of Meghalaya, only the Government has the authority to notify new Rules or make any amendments thereafter which are approved by the State assembly.
18. Does the documented process include the following? (1) A code of conduct to avoid occurrence or perceptions of conflicts of interest (2) Methods of procurement and when different methods should be applied, (3) Procedures for requests for tenders, (4) Procedures for bid evaluation, (5) Procedures that are transparent and competitive. Does IP	√			GFR provides for detailed policies and procedures to be adhered by any department.



Subject Area	Yes	No	N/A	Remarks
have a good track record of following these procedures?				
<b>Cash and Bank</b>				
19. Indicate in remarks /comments section the names and positions of the authorized signatories on the bank accounts	√			Department of Education and each Directorate have a bank account maintained with State Bank of India which is operated by the State Treasury. Drawing & Disbursement Officer directs instruction to state treasury for issuance of cheque for payment to vendors.
20. Are there appropriate controls over management of petty cash including limits over the maximum levels of petty cash held?	√			DoE does not handle petty cash, all transactions are undertaken through treasury
21. Are there appropriate controls built in to the banking arrangements, including for example proper authorization of disbursements, double signatures on cheques and transfers, use of account payee cheques and conduct of regular bank reconciliations	√			Adequate controls over the banking arrangements were observed.
22. Are all unusual items on the bank reconciliation reviewed and approved by responsible official?		√		No bank reconciliation statements are prepared by the IP. However, during the annual audit, a reconciliation of funds is prepared between the transactions recorded by the Treasury, Finance Department and the office of the Audit general.
<b>Safeguard over Assets</b>				
23. Is there a system of safeguards to protect assets from fraud, waste, and abuse?	√			<p>The GFR lays down the following controls for the maintenance and safeguard of fixed assets:</p> <ul style="list-style-type: none"> <li>• Maintenance of a Fixed Asset Register</li> <li>• There is a process for physical verification of fixed assets to be performed at least once a year.</li> </ul> <p>DoE maintains a “Stock Register” to keep track of the assets and stock. The Stock register is updated as and when as asset is procured by the Implementing Partner. We were also informed that an annual physical verification of assets is also undertaken. However, the above mentioned register and the physical verification report were not made available to us.</p>
24. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	√			Stock registers were updated.

Subject Area	Yes	No	N/A	Remarks
25. Are there periodic physical verification of inventories of fixed assets and stocks?	√			We were informed that annual physical verification of assets is undertaken during the AG Audit. However no such report was shared with us.
26. Are assets sufficiently covered by insurance policies?		√		None of the assets have been insured.
<b>Risk Assessment (Accounting Policies and Procedures)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

Note: Even though the department has well document policies and procedures, however in view of the C&AG audit findings on budgetary control, financial management and payment, the overall rating has been increased to "Substantial". Kindly refer section 1.1.6 on External Audit on audit findings.

### 1.1.5 Internal Audit

Subject Area	Yes	No	N/A	Remarks
1. Is there an internal audit department in the entity or an internal auditor?		√		DoE does not have any system of Internal audit.
2. What are the qualifications and experience of audit department or internal auditor?		√		Refer point no. 1 above
3. Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?		√		Refer point no. 1 above
4. Assess the quality and usefulness of such reviews. Consider quality and frequency of audits and follow up.		√		Refer point no 1 above
5. Are actions taken on internal audit findings? Has the IP management subsequently followed up and addressed these issues		√		Refer point no 1 above
<b>Risk Assessment (Internal Audit)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.6 External Audit

Subject Area	Yes	No	N/A	Remarks
1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	√			DoE is subject to an annual audit by the Office of the Accountant General, Meghalaya ('AG') which conducts the audit of all State Government departments.
2. Are there any delays in the audit of the entity? When is the audit reports issued?	√			AG undertakes the annual audit as per their pre-defined schedule and audit reports are normally issued within two months from the date of the visit.
3. Is the audit of the entity conducted according to the appropriate standards on auditing?	√			Annual audit is undertaken as per the procedures defined under the GFR. AG also compares the achievements vis-à-vis the fiscal targets set by the State Government under the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006.
4. Were there any major accountability issues brought out in the audit report of the past three years?	√			Report of the Comptroller and Auditor General of India on State Finances for the year ending March 31, 2011 was reviewed and some of the observations have been provided below: <ul style="list-style-type: none"> <li>• The financial management and budgetary control of the Government was not satisfactory. Government presented an ambitious budget of INR 5758.81 crores for the year 2010-2011, of which it could incur an expenditure of INR 4875.56 crore resulting in an overall shortfall in disbursements of INR 883.25 crore (15.34% of the total provision).</li> <li>• There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were not surrendered or surrendered on the last day of the year leaving no scope for utilizing these for other development purposes;</li> <li>• There were deficiencies in budgetary procedure and expenditure control. The estimates for receipts and expenditure were prepared without adequate due diligence in observing prescribed budgetary regulations.</li> </ul>
5. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	√			Some of the recommendations given by CAG are : <ul style="list-style-type: none"> <li>• Efforts should be made by all the departments to submit realistic budget estimates keeping in view the trends in receipts and expenditure in order to avoid large scale savings, re- apportionments and surrender at the fag end of the year.</li> <li>• Reapportionment should be judicious supported by justified reasons to avoid excessive and insufficient funds</li> <li>• Finance departments should ensure strict compliance of codal provisions as well as its</li> </ul>

Subject Area	Yes	No	N/A	Remarks
				own instructions of budgetary provisions.
<b>Risk Assessment (External Audit)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

Note: The effect of audit findings has been taken in section 1.1.4.

### 1.1.7 Reporting and Monitoring

Subject Area	Yes	No	N/A	Remarks
1. Are financial statements prepared for the entity?	√			Quarterly financial statements are prepared by the DOE for submission to the Central Government and Donors.
2. What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	√			Refer point no 1 above.
3. Are control procedures in place to ensure the accuracy and integrity of data forming the basis for reports?	√			Sufficient care is taken to ensure the integrity of data forming the basis for reports.
4. Does the reporting system have the capacity to link the financial information with the physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	√			DoE prepares a Project Plan defining the physical targets and the budget required for achievement of these targets. The progress against the targets and budget is reported and monitored on a quarterly basis.
5. Does the IP have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how are to be used?	√			Refer point no 1 above
6. Are financial management reports used by management?	√			A utilization certificate prepared for various government schemes implemented by DoE is being reviewed by Director of Education. As informed, these reports are used by the Director of Education to monitor variances from the approved budget and to take necessary corrective actions (if any).

Subject Area	Yes	No	N/A	Remarks
7. Are financial reports prepared directly by automated accounting system or are they or are they prepared by spreadsheets or some other means? Are these reports reviewed by a responsible official of the IP?		√		Currently, the internal financial reports are prepared by the DoE in excel spreadsheets by drawing relevant information from the utilization certificates received from various departments.
<b>Risk Assessment (Reporting and Monitoring )</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>(L)</b>

### 1.1.8 Information Systems

Subject Area	Yes	No	N/A	Remarks
1. Is the financial management system computerized?		√		DoE currently maintains manual books of accounts, however, we were also informed, that DoE is under the process of migrating from manual accounting to computerized accounting on the software prescribed by the National Information Centre (NIC).
2. Can the system produce the necessary financial reports?			√	Since manual accounts are maintained, MIS is not system generated.
3. Are the staffs adequately trained to maintain the system?			√	Not applicable as manual records are being maintained.
4. Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?			√	Not applicable as manual records are being maintained.
<b>Risk assessment (Information Systems)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>(L)</b>

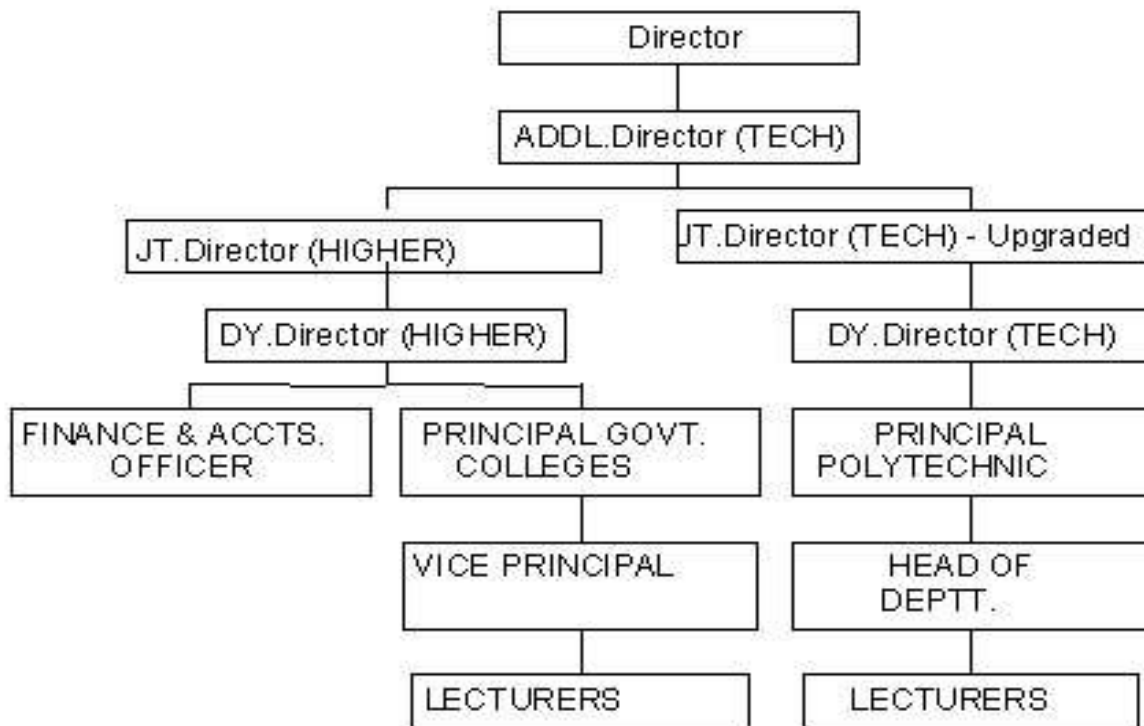
## SOURCES OF INFORMATION

In performing this review:

1. We communicated with the following individuals from the Partner:
  - Smt. L.R. Sangma, IAS- Director-Department of Education
  - Smt W. Shallam, Financial Advisor-Department of Education
  - Mr Gordon Kharduit, Research Assistant-Department of Education.
  
2. We reviewed the following documents, books and records:
  - Meghalaya Financial Rules.
  - Delegation of Finance Power Rules 2006
  - Meghalaya Fundamental Rules & Subsidiary Rules
  - Rules of Executive Business of the Government of the State of Meghalaya
  - list of existing staff at Department of Education and Each Directorate

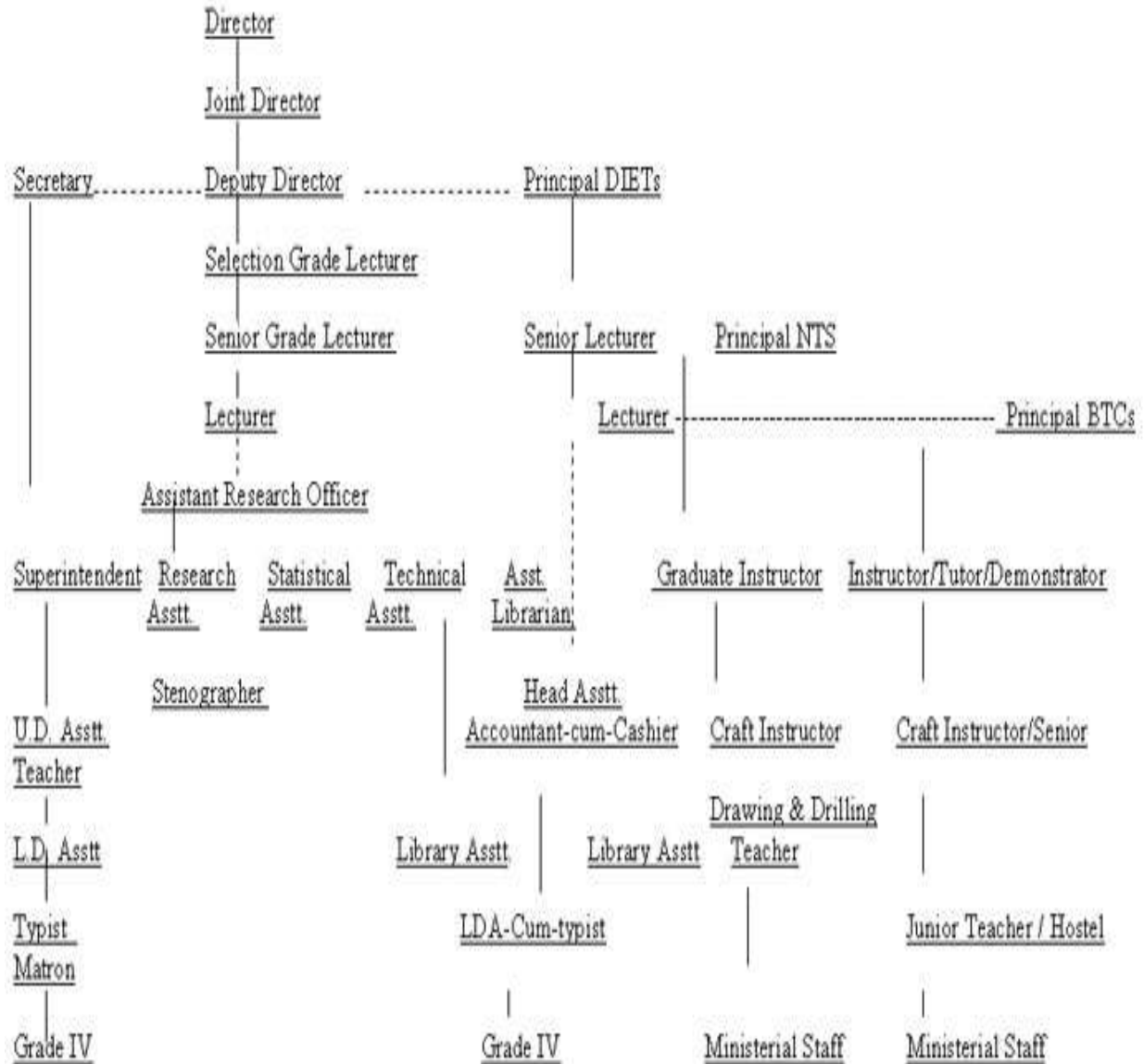
## Annex 3 (i)

## ORGANIZATION CHART: DIRECTORATE OF HIGHER AND EDUCATION DEPARTMENT



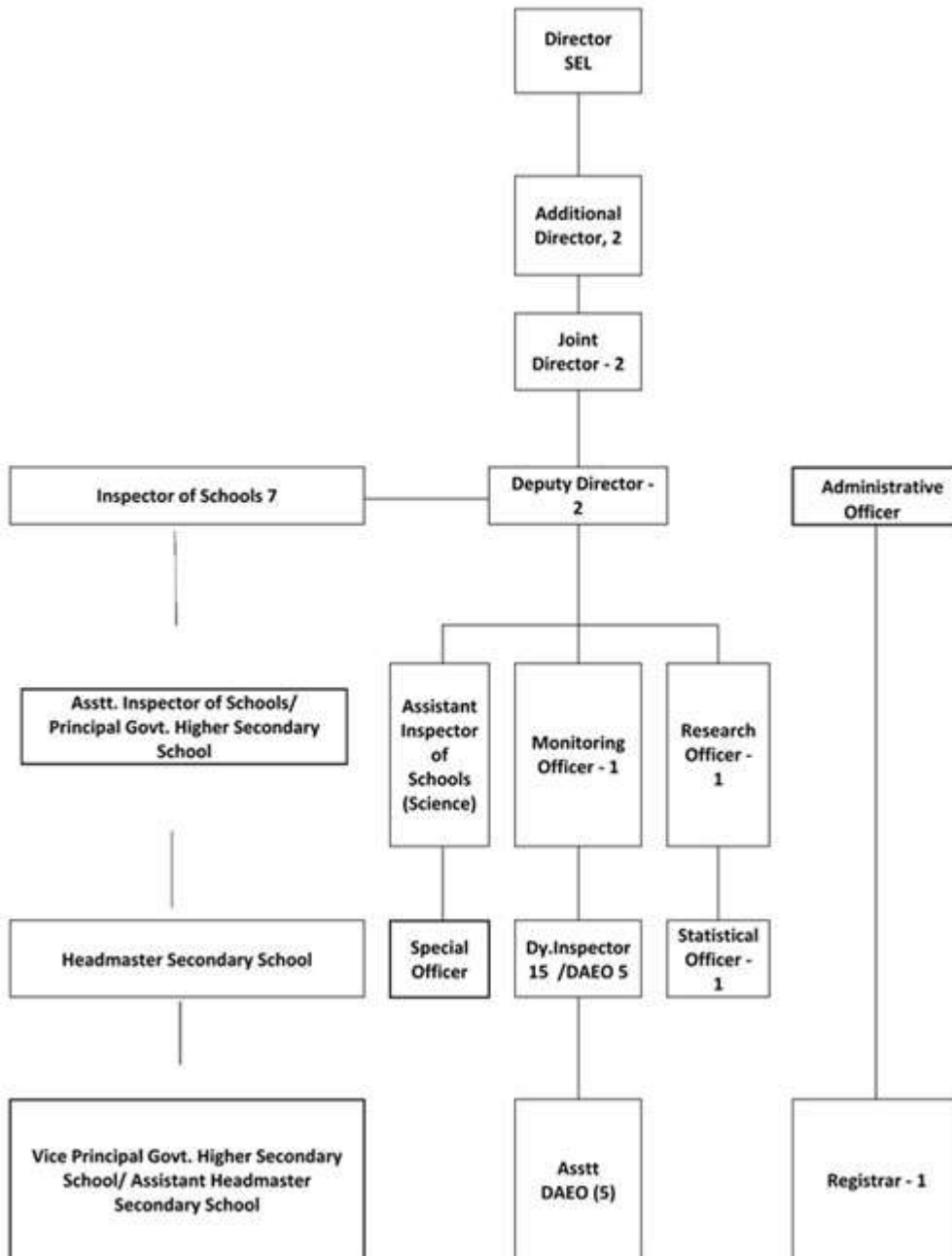
**ORGANIZATION CHART OF THE DIRECTORATE OF EDUCATIONAL RESEARCH AND TRAINING**

Organisation Chart  
Directorate of Educational Research and Training, Meghalaya.





**ORGANIZATION CHART OF THE DIRECTORATE OF SCHOOL EDUCATION AND LITERACY**



### **FUNCTIONS OF DIRECTORATE OF EDUCATION**

1. The function of the Directorate of Higher & Technical Education is to primarily administer, govern and supervise activities related to Higher Education including College & University Education, Technical Education, Professional Education and Vocational Education in the State of Meghalaya.
2. The function of Directorate of Education Research and Training is primarily to be responsible for qualitative improvement in the field of school education
3. Directorate of School Education and Literacy main's function is to provide free and compulsory education to children between age group 6-14.

**Annex 5****RULE 12 (2) OF MEGHALAYA DELEGATION OF FINANCE POWER RULES 2006**

- ▶ That fund must not be re appropriated to meet an item of expenditure which has not been sanctioned.
- ▶ That the re-appropriation does not involve the under-taking of a liability which is likely to extend beyond the financial year concerned.
- ▶ That fund provided for General area should not be re-appropriation to provisions for Sixth Schedule (Part A) Areas and vice-versa.
- ▶ No re-appropriation shall be made from saving under salaries and wages.
- ▶ That the re-appropriation is not made for a new service not contemplated in the budget for the year nor for an object not specifically included in the estimate and for which no provision has been made for the year concerned.
- ▶ That the re-appropriation has not the effect of increasing the expenditure on any item, the provision of which has been specifically reduced by a vote of the Assembly.

### FINANCIAL MANAGEMENT ASSESSMENT

<b>Name of Implementing Partner/Agency :</b>	Meghalaya State Skill Development Society (MSSDS)	<b>Date of review:</b>	4-Oct-12		
<b>Summary of Risks related to the financial management capacity of the Implementing partner</b>					
Please refer to subsequent pages for questions for each area that should be completed and summarized in the sections below.					
	<b>Risk Assessment</b>				
	H	S	M	L	Comments
17. Governance & Management	√				Refer Para 1.1.1
18. Funds Flow	√				Refer Para 1.1.2
19. Staffing	√				Refer Para 1.1.3
20. Accounting Policies and Procedures, Budgetary Control and Payments	√				Refer Para 1.1.4
21. Internal Audit	√				Refer Para 1.1.5
22. External Audit	√				Refer Para 1.1.6
23. Reporting and Monitoring	√				Refer Para 1.1.7
24. Information systems		√			Refer Para 1.1.8
<b>Inherent Risk</b>					
List major specific issues identified in the assessment of the country's public financial management system (macro-assessment), or specific risks related to the nature or operation of the overall Implementing partner	<p><b>Governance:</b></p> <p>a) The Society is not registered with the following authorities:</p> <ul style="list-style-type: none"> <li>• It is not registered as a charitable entity under Section 12AA of the Income-tax Act, 1961</li> <li>• It has not obtained the Permanent Account Number ("PAN") and Tax Deduction Account Number ("TAN"), as per the Income-tax Act, 1961.</li> <li>• It is not an approved institution under Section 80G (5) of the Income-tax Act, 1961.</li> </ul> <p>b) Annual General Meetings have not been held for the organisation till date, though the meetings of the Executive Council have taken place which may result in strategic decisions and plans not being approved and ratified by the Governing Council.</p> <p>c) MSSDS does not have any documented policies and procedures of its own. Currently they are adhering to the policies and procedures as defined in the GFR.</p> <p>d) There is no policy formed by MSSDS for obtaining a declaration of a Conflict of Interest from the Governing Council and Executive</p>				

	<p>Council members of the Society. Absence of conflict of interest policy may result in non-identification of potential conflicts of members and biased decision making process.</p> <p>e) The review team noted that there is no procedure defined for reporting identified significant risks by MSSDS on a regular basis to the Board. As a result, key organisation and process level risks may not be identified which may lead to potential misutilisation of funds</p> <p><b>Staffing</b></p> <p>a) MSSDS does not have any documented policies and procedures of its own for dealing with matters related to staff.</p> <p>a) At present, there are only three personnel in MSSDS including the Chief Executive Officer, Executive Director and Program Office, The level and competency of staff is inappropriate for the level of financial volume of the proposed ADB. In addition the accounting function is currently carried out by the Program Officer who is neither adequately qualified nor experienced to handle this function.</p> <p>b) MSSDS has also not identified/ recruited the following relevant personnel till date:</p> <ul style="list-style-type: none"> <li>• Procurement officer for circulation of project bids</li> <li>• Members of the Project Evaluation Unit for the circulation, receipt and evaluation of the project proposals</li> <li>• Accounting Officer and Accounts Assistant for the recording and maintaining the financial records of the Society and managing the funds flow</li> <li>• MIS Officer for obtaining, collating, preparing and circulation of the grantee and consolidated periodic financial and narrative project reports</li> </ul> <p>c) There is no formal institutional training policy defined for finance and accounting staff. Inadequate orientation and training on key policy features may potentially result in inefficiencies and incomplete financial information being maintained</p> <p><b>Accounting policies and procedures, Budgetary Control and Payments</b></p> <p>b) MSSDS does not have any documented policies and procedures of its own. Currently they are adhering to the policies and procedures as defined in the GFR.</p> <p>c) There is inadequate segregation of duties since the person recording the accounting transaction in the books is the benefactor of the payment. Inappropriately segregated duties may potentially lead to instances of fraud and/or misappropriation of funds</p> <p>d) The Society follows the General Financial Rules applicable to 2005 applicable to all Govt. offices of India and does not have its own bye-laws policies and procedures</p> <p>e) There is no process of comparison of actual expenditure with the budget and no formalized system for approval of the variations from the budget prior or on a post facto basis. As a result, significant variances from the budgeted expenses may occur which have no prior approval resulting in potential disallowances of grant funds</p> <p>f) There are no controls for the preparation and changes of payroll at MSSDS since the Program officer who is responsible for recording the salary payment in the financial records is also the recipient of this payment. Further, since there are no other employees other</p>
--	---

	<p>than the Program Officer at present, there are no key controls for HR and Payroll management such as,</p> <ul style="list-style-type: none"> <li>• Database of employees containing details employee qualification, designation, department, location, date of joining, date of termination, address, contact number, e-mail id, compensation details, leave entitlements or</li> <li>• Recording of employee attendance or</li> <li>• Mechanism to track the leaves</li> </ul> <p>Due to the above mentioned weaknesses, there is a potential risk of incorrect financial records and excess payments to employees due to inadequate segregation of duties and inadequate tracking of leaves and attendance</p> <p>g) The officials of MSSDS do not prepare bank reconciliation statements which may give rise to fraud vulnerabilities and misappropriation of Program funds</p> <p><b>Internal &amp; External Audit</b> MSSDS does not have any system of Internal Audit. Accordingly, there may arise a risk of undetected frauds and misappropriation of Program funds. External auditors are yet to be appointed.</p> <p><b>Reporting and Monitoring</b> MSSDS was registered as a society on 5 December 2011; however the financial statements for the year ended 31 March 2012 have not been prepared. Thereby, there is an inadequate basis for decision making by the Board as regards augmenting the resource base of the Society</p> <p><b>Information Systems</b> The Society does not use a computerized financial management system. Manual books of accounts are maintained by the IP including the cash book, expenditure book and the note sheet with the requisite approvals.</p>				
<b>Overall Risk assessment</b>	(H)	S	M	L	
<p><b>H-</b> High; <b>S-</b> Significant; <b>M-</b> Moderate; <b>L-</b> Low</p>					

## Financial Management Questionnaire

### 1.1.1 Governance & Management

Subject Area	Yes	No	N/A	Remarks
1. Is the Implementing Partner or agency (IP) legally registered? Please note the legal status/registration of the entity	√			<p>The Meghalaya State Skill Development Society (hereinafter referred to as "IP" or "MSSDS") was registered as a <b>Society</b> under the Meghalaya Societies Registration Act, 12 of 1983 on <b>5 December 2011</b>.</p> <p>Based on the discussions with the CEO of MSSDS, Ernst &amp; Young observed the following:</p> <ul style="list-style-type: none"> <li>• MSSDS is <b>not registered</b> as a charitable entity under Section <b>12AA</b> of the Income-tax Act, 1961.</li> <li>• MSSDS has <b>not obtained</b> the Permanent Account Number ("<b>PAN</b>"), as per the Income-tax Act, 1961.</li> <li>• MSSDS has <b>not obtained</b> the Tax Deduction Account Number ("<b>TAN</b>"), as per the Income-tax Act, 1961.</li> <li>• The Implementing Partner is <b>not an approved institution</b> under Section <b>80G (5)</b> of the Income-tax Act, 1961.</li> </ul>
2. Describe the governance structure of the IP.	√			<p>MSSDS has a General Body, an Executive Council and a Secretariat responsible for operating, managing and controlling its operations.</p> <p>The day to day operations of the entity are managed by the Executive Council whereas the Governing Body is responsible for providing strategic guidance, amendment of the bye-laws; accept donations and endowments, etc.</p> <p>The Governing Body is headed by the Chairman who is the Chief Minister of the State of Meghalaya; the CEO of MSSDS is the Member Secretary and has various other members such as Ministers of Labour &amp; Employment, Education etc.</p> <p>The Executive Council is headed by the Chairman who is the Chief Secretary and the Vice- Chairman who is the Additional Secretary of the Society and has Principal Secretary/ Commissioners of Labour, Education etc as the members.</p> <p><b>Refer Annex 2(a) and 2(b) for details</b></p>
3. Is the governing body for the IP independent? Review the expertise and experience of the Board members to ascertain that the members understand			√	<p>Not applicable, as all positions in the Governing Body/Executive Council are held in ex-officio capacity by the Ministers/Principal Secretaries of the different Government Departments.</p>

Subject Area	Yes	No	N/A	Remarks
the company's business operations, strategic initiatives and major transactions and may present alternate views.				
4. What is frequency of Board meetings? Are these meetings minuted?		√		As per the Memorandum of the MSSDS, the Annual General Meeting is to be held once a year and is required to be attended by at-least 6 members of the Society, however no Annual General Meetings of the Governing Body has been held till date. Three meetings of the Executive Council have been held since inception and the minutes/proceedings have been properly documented.
5. Does the IP have adequate policies and procedures to guide its operations? Comment on the adequacy of these procedures?		√		MSSDS does not have any documented policies and procedures for its own, however we were informed currently MSSDS follow policies and procedures as defined in the Meghalaya General Financial Rules ('GFR').
6. Does these policies and procedures provide for a code of conduct for conflict of interest resolution, avoiding instances of illegal or other improper payments, corruption, fraud, misappropriation of funds, un ethical and immoral behavior ? Has the IP defined key areas of authority and responsibility?		√		There is no particular policy providing for a Conflict of Interest, however GFR clearly defines the roles and responsibilities of each position in the Government departments.
7. Does the IP follows ethical guidelines in dealings with employees, suppliers, investors, creditors, insurers, competitors, and auditors?		√		Since all staff members are currently holding additional charge of MSSDS or are on deputation to MSSDS, practices as defined in the GFR are followed.
8. Are relationships with third parties periodically reviewed to ensure the entity maintains associations only with reputable vendors/agencies?			√	Since MSSDS has been recently established, there are no transactions to substantiate the same. However as per the GFR a vendor list/ rate list is maintained for procurements by the Government departments which are periodically reviewed and revised. Since MSSDS has been recently established with no similar transactions it could not established whether MSSDS will adhere to these policies and procedures.
9. Are changes to established relationships with	√			Since the procurement procedures are a part of the General Financial Rules (GFR) any changes to these Rules may only be made by the Department



Subject Area	Yes	No	N/A	Remarks
external parties (attorneys, auditors, bankers) are approved by an appropriate level of management?				of Finance.
10. Does the Board constructively challenge management's decisions, strategic initiatives, major transactions and explanations of past results?			√	Since there has been no Annual General Meeting held till date therefore it could not be established whether the decisions made by the management are constructively challenged by the Board.
11. Are the employees aware off and understand the policies regarding acceptable behavior. Is the importance of ethical behavior is discussed with newly hired employees through orientations or interviews?	√			Currently there are three staff members in MSSDS i.e. the Chief Executive Officer ('CEO'), Executive Director ('ED') and a Program Officer ('PO'). All three are aware of the Policies and Procedure as defined in the GFR.
12. When improper practices are reported to Board, are they communicated to all appropriate parties and dealt with in a thorough and timely manner?			√	Since MSSDS has been recently been established no such incidents have been reported till date, however the GFR provides for adequate provisions to deal with such matters.
13. Does the Board receive periodic reports on identified significant risks and the results of actions taken to address them?		√		The review team noted that there is no procedure defined for reporting identified significant risks by MSSDS.
14. Who 'regulates' the financial performance of the company and its adherence to norms?	√			The financial performance of the Society is regulated by the Executive Council which includes the CEO, ED and the members.
<b>Risk Assessment (Governance and Management)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.2 Funds Flow

Subject Area	Yes	No	N/A	Remarks
1. Can the entity receive and transfer funds? Are the arrangements to	√			MSSDS is registered as a Society under the Meghalaya Societies Registration Act, 12 of 1983. As a separate registered entity it is authorized to

Subject Area	Yes	No	N/A	Remarks
transfer the funds to the entity satisfactory				<p>receive/transfer funds.</p> <p><b>Receipt of funds:</b> Currently MSSDS receives funds from the Government of Meghalaya. The Government of Meghalaya funds are accessed by way of budgetary allocation through the Department of Finance which are credited to the bank account of MSSDS (maintained with AXIS Bank).</p> <p><b>Payment of funds:</b> For making payment of salaries, funds are transferred by MSSDS to the respective bank account of the employee. For making other payments, funds are maintained in the Axis bank a/c and are subsequently transferred to the vendors etc.</p>
2. Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from IFIs such as WB, ADB, IFC etc.?			√	Not applicable as MSSDS till the date of our visit had only received only tranche from the Government of Meghalaya.
3. In the past, has the entity had any problems in the management of funds? Please describe			√	Not applicable as they have not received funds from any agency apart from the Government of Meghalaya.
4. How does the IP manage fund flow with other departments/agencies? Does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?		√		We were informed that MSSDS adhered to GFR which provides for systems for transfer of funds are well defined and there are adequate mechanisms to monitor these transfers; however MSSDS does not have any documented policies of its own.
5. Has the IP established controls and procedures for flow of funds, financial information, accountability and audits in relation to the other departments or entities? Does the information among the different offices/agencies flow in an accurate and timely fashion? Are periodic reconciliations performed among the different offices/agencies? Please describe the process.		√		There are adequate controls for the flow of funds and financial information to other departments and entities as defined in the GFR; however MSSDS does not have any documented policies of its own.

Subject Area	Yes	No	N/A	Remarks
6. Does the charter/ articles/ memorandum of the entity permit it to borrow funds from (a) Government entities (b) Commercial banks or Financial Institutions and (c) Retail investors	√			The memorandum permits the Society to purchase or take on lease, accept as a gift, construct or otherwise acquire any loan or property wherever suitable, which maybe necessary or useful for the Society.
7. Does the charter/ articles/ memorandum of the entity permit it to lend funds through debt or debt-like instruments to (a) Government entities (b) Commercial entities (c) NGOs			√	The memorandum does not permit the lending of funds through debt or debt like instruments. However, the Society is permitted to endorse or negotiate with the Government of India.
8. Does the charter/ articles/ memorandum of the entity permit it to invest equity or in equity-like instruments in (a) Government entities (b) Commercial entities (c) NGO	√			Yes, the Memorandum of the Society permits investment of funds into securities from time to time.
<b>Risk Assessment (Funds Flow)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.3 Staffing

Subject Area	Yes	No	N/A	Remarks
1. Is the organizational structure of the accounting department appropriate for the level of financial volume envisaged by the ADB grant? Attach an organization chart.		√		MSSDS has three staff members and the accounting function is currently carried out by the PO.
2. Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience.		√		As mentioned above PO is responsible for recording accounting transactions for the Society. The PO is a post graduate in rural development and does not have the requisite qualifications for recording of accounting entries.
3. Is the IP finance and accounts function staffed		√		MSSDS does not have an adequately staffed accounts and finance department. MSSDS plans to

Subject Area	Yes	No	N/A	Remarks
adequately? Does the IP envisage hiring of additional resources with respect to the ADB grant?				induct a new Accounts Officer and an Accounting Specialist. Notification to this effect has already been passed by the Government of Meghalaya.
4. Are accounts and finance staff adequately qualified and experienced?			√	Not Applicable. Refer points above
5. Are accounts and finance staff familiar with IPs policies and procedures?			√	Not Applicable. Refer points above
6. Are these permanent staff members? If not, what is the duration of the contract of finance and accounts staff?	√			The team was informed that all the employees are contracted for a period of one year. All the agreements are subject to renewal of one year
7. Is there a training policy for the finance and accounting staff? Please describe.		√		There is no formal institutional training policy defined for finance and accounting staff.
<b>Risk Assessment (Staffing)</b>	<b>(H)</b>	<b>S</b>	<b>M</b>	<b>L</b>

#### 1.1.4 Accounting Policies and Procedures

Subject Area	Yes	No	N/A	Remarks
1. Does the entity have an accounting system that allows for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?	√			MSSDS is currently maintaining manual books of accounts for recording of accounting transactions.
2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly explained?	√			All transactions are initiated on a plain paper referred to as a 'Note Sheet'. This process is followed across all Govt. departments in India. The note is initiated by the E D seeking an approval from the CEO for incurring expenditure.
3. Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?	√			The Chart of Accounts are based on the budget heads of the Society
4. Are cost allocations to the various funding sources	√			The cost allocations are made for each budget head which are approved by the Executive

Subject Area	Yes	No	N/A	Remarks
made accurately and in accordance with established agreements?				Council which is then presented to the Planning Department for approval. This budget then forms part of the total State Budget and is approved in the State Assembly. Each line item of the budget is supported by relevant assumptions.
5. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	√			Yes the accounting records and supporting documents are maintained in files which are archived on a regular basis.
<b>Segregation of duties</b>				
6. Are the following functional responsibilities performed by different units or persons: a) authorization to execute a transaction; b) recording of the transaction; and c) custody of assets involved in the transactions? Explain the authority matrix		√		There is inadequate segregation of duties since the person recording the accounting transaction in the books is the benefactor of the payment.
7. Are the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated?			√	MSSDS till the date of our review has not procured any goods. A Government notification for recruitment of a Procurement Officer within MSSDS has already been passed.
<b>Budgeting System</b>				
8. Are approvals from variations from the budget required in advance or on post facto basis?		√		There is no formalized system for approval of the variations from the budget prior or on a post facto basis.
9. Who is responsible for preparation and approval of budgets?	√			At present, the CEO and ED are responsible for the preparation of the budget of the Society. The budgets are approved in the meetings of the Executive Council.
10. Are procedures in place to plan activities, collect information from the units in charge of the different components and prepare budgets?	√			Each budget component is prepared on the basis of the state skills requirements and taking into account the objectives of the Society.
11. Are the plans and budgets of activities realistic, based on valid assumptions and developed by knowledgeable persons?	√			Each budget component is supported with valid assumptions which are presented to the Executive Council for approval. The approved budget is then presented to the Ministry of Community & Rural Development and finally to the State Assembly. The budget components maybe questioned and challenged in any of these stages, thereby facilitating a need for reasonable and valid budget assumptions.

Subject Area	Yes	No	N/A	Remarks
12. Are actual expenditures compared to the budget with reasonable frequency and explanations required for significant variations from the budget? Are approvals from variations from the budget required in advance or on post facto basis?		√		There is no process of comparison of actual expenditure with the budget.
<b>Payments</b>				
13. Do invoice processing procedures provide for: <ul style="list-style-type: none"> <li>• Copies of purchase orders and receiving reports to obtained directly from issuing authority/departments?</li> <li>• Comparison of invoice quantities, prices and terms with those indicated on the purchase orders and with records of goods actually received?</li> <li>• Comparison of invoice quantities with those indicated on the receiving reports?</li> <li>• Checking accuracy of calculations?</li> </ul>		√		MSSDS does not have any documented policies of its own; we were informed that it adheres to the policies as defined in the GFR <ul style="list-style-type: none"> <li>•</li> </ul>
14. Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?			√	There have been no invoices raised till the date of our visit.
15. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?		√		There are no controls for the preparation of payroll. The recipient of the salary and the entry for payment of salary is recorded in the cash book by the Program officer herself.
<b>Policies and Procedures</b>				
16. Describe the basis of accounting (e.g. Cash, accrual)?	√			MSSDS follows cash basis of accounting for maintaining books of accounts.
17. Does the entity have adequate policies and procedures manual to guide activities and ensure staff accountability?		√		Currently MSSDS does not have any documented policies and procedures however we were informed that MSSDS adheres to policies and procedures as defined in the GFR.
18. Do procedures exist to ensure that only			√	Not applicable as MSSDS does not have any documented policies of its own.

Subject Area	Yes	No	N/A	Remarks
authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?				
19. Does the documented process include the following? (1) A code of conduct to avoid occurrence or perceptions of conflicts of interest (2) Methods of procurement and when different methods should be applied, (3) Procedures for requests for tenders, (4) Procedures for bid evaluation, (5) Procedures that are transparent and competitive. Does IP have a good track record of following these procedures?		√		Further to Point no. 17 above, the GFR provides for all essential controls regarding the procurement procedures such as methods of procurement, procedures for requests for tenders, procedures for bid evaluation etc.
<b>Cash and Bank</b>				
20. Indicate in remarks /comments section the names and positions of the authorized signatories on the bank accounts	√			The CEO and ED of MSSDS are joint signatories to the AXIS Bank account.
21. Are there appropriate controls over management of petty cash including limits over the maximum levels of petty cash held?			√	MSSDS does not handle any cash transactions.
22. Are there appropriate controls built in to the banking arrangements, including for example proper authorization of disbursements, double signatures on cheques and transfers, use of account payee cheques and conduct of regular bank reconciliations	√			Adequate controls over the banking arrangements were observed.
23. Are all unusual items on the bank reconciliation reviewed and approved by responsible official?		√		No bank reconciliation statements are currently being prepared.
<b>Safeguard over Assets</b>				

Subject Area	Yes	No	N/A	Remarks
24. Is there a system of safeguards to protect assets from fraud, waste, and abuse?		√		<ul style="list-style-type: none"> <li>Currently MSSDS does not have any documented policies and procedures however we were informed that MSSDS adheres to policies and procedures as defined in the GFR.</li> </ul>
25. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?			√	Currently MSSDS does not have any fixed assets.
26. Are there periodic physical verification of inventories of fixed assets and stocks?			√	Currently MSSDS does not have any fixed assets.
27. Are assets sufficiently covered by insurance policies?			√	Currently MSSDS does not have any fixed assets.
<b>Risk Assessment (Accounting Policies and Procedures)</b>	<b>(H)</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.5 Internal Audit

Subject Area	Yes	No	N/A	Remarks
1. Is there an internal audit department in the entity or an internal auditor?		√		MSSDS does not have any system of Internal Audit.
2. What are the qualifications and experience of audit department or internal auditor?		√		Kindly refer point no.1 of this sub-section
3. Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?			√	Kindly refer point no.1 of this sub-section
4. Assess the quality and usefulness of such reviews. Consider quality and frequency of audits and follow up.		√		Kindly refer point no.1 of this sub-section
5. Are actions taken on internal audit findings? Has the IP management subsequently followed up and addressed these issues		√		Kindly refer point no.1 of this sub-section
<b>Risk Assessment (Internal Audit)</b>	<b>(H)</b>	<b>S</b>	<b>M</b>	<b>L</b>



### 1.1.6 External Audit

Subject Area	Yes	No	N/A	Remarks
1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?		√		MSSDS was formed in December 2011, first annual audit (for the year ended 31 March 2012) is yet to be undertaken. A firm of Chartered Accountant is required to be appointed by the Executive Council for the conduct of the audit of the MSSDS. These accounts would also be subject to a second audit by the Comptroller and Auditor General of India.  <i>Since MSSDS has not received any funds till 31 March 2012, the audit for the year 2011-12 has not been performed.</i>
2. Are there any delays in the audit of the entity? When is the audit reports issued?			√	Kindly refer point no.1 of this sub-section.
3. Is the audit of the entity conducted according to the appropriate standards on auditing?			√	Kindly refer point no.1 of this sub-section.
4. Were there any major accountability issues brought out in the audit report of the past three years?			√	Kindly refer point no.1 of this sub-section.
5. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?			√	Kindly refer point no.1 of this sub-section.
6. Has the IP prepared audit plans?			√	Kindly refer point no.1 of this sub-section.
<b>Risk Assessment (External Audit)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

### 1.1.7 Reporting and Monitoring

Subject Area	Yes	No	N/A	Remarks
1. Are financial statements prepared for the entity?		√		MSSDS was registered as a society on 5 December 2011; however the financial statements for the year ended 31 March 2012 have not been prepared.
2. What is the frequency of preparation of financial statements? Are the reports prepared in a		√		Kindly refer point no.1 of this sub-section

Subject Area	Yes	No	N/A	Remarks
timely fashion so as to useful to management for decision making?				
3. Are control procedures are in place to ensure the accuracy and integrity of data forming the basis for reports?		√		Kindly refer point no.1 of this sub-section
4. Does the reporting system have the capacity to link the financial information with the physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?		√		Kindly refer point no.1 of this sub-section
5. Does the IP have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how are to be used?		√		Kindly refer point no.1 of this sub-section
6. Are financial management reports used by management?		√		Kindly refer point no.1 of this sub-section
7. Are financial reports prepared directly by automated accounting system or are they or are they prepared by spreadsheets or some other means? Are these reports reviewed by a responsible official of the IP?		√		Kindly refer point no.1 of this sub-section
<b>Risk Assessment (Reporting and Monitoring )</b>	(H)	S	M	L

### 1.1.8 Information Systems

Subject Area	Yes	No	N/A	Remarks
1. Is the financial management system computerized?		√		MSSDS currently maintains manual books of accounts including cash book, ledgers and all requisite approvals are initiated on Note Sheets (as done in Government Departments).
2. Can the system produce the necessary financial reports?			√	Refer point no.1 of this sub-section
3. Are the staffs adequately trained to maintain the system?			√	Refer point no.1 of this sub-section
4. Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?			√	Refer point no.1 of this sub-section
<b>Risk assessment (Information Systems)</b>	<b>H</b>	<b>S</b>	<b>M</b>	<b>L</b>

## SOURCES OF INFORMATION

In performing this review:

3. We communicated with the following individuals from MSSDS:
  - CEO
  - Program Officer
  
4. We reviewed the following documents, books and records:
  - Certification of registration and other regulatory registrations
  - List of existing staff at MSSDS
  - List of General body ('members') and governing body members ('Board')
  - Financial Rules applicable to the Society
  - Memorandum of the society
  - Sample minutes of the meeting of the members and Board
  - Details of bank account of the society and details of signatories

**LIST OF MEMBERS OF THE GOVERNING BODY OF MSSDS**

<b>S. No.</b>	<b>Position in General Body</b>	<b>Designation in Government</b>
1	Chairman	Chief Minister
2	Member	Minister, Labour & Employment
3	Member	Minister, Education
4	Member	Minister, Industries & Commerce
5	Member	Minister, C & RD
6	Member	Minister, Agriculture
7	Member	Minister, Cooperation
8	Member	Minister, Information & Technology
9	Member	Chief Secretary
10	Member	Additional Chief Secretary, i/c Labour
11	Member	Principal Secretary/ Commissioner & Secretary, Labour
12	Member Secretary	CEO, MSSDS

**LIST OF MEMBERS OF THE EXECUTIVE COUNCIL OF MSSDS**

<b>S. No.</b>	<b>Position in Executive Council</b>	<b>Designation in Government</b>
1	Chairman	Chief Secretary
2	Vice Chairman	Addl. Chief Secretary (i/c. Labour & Employment)
3	Member	Principal Secretary/ Commissioner & Secretary, Labour
4	Member	Principal Secretary/ Commissioner & Secretary, Education
5	Member	Principal Secretary/ Commissioner & Secretary, Industries
6	Member	Principal Secretary/ Commissioner & Secretary, C & RD
7	Member	Principal Secretary/ Commissioner & Secretary, Agriculture
8	Member	Principal Secretary/ Commissioner & Secretary, Cooperation
9	Member	Principal Secretary/ Commissioner & Secretary, Planning
10	Member	Principal Secretary/ Commissioner & Secretary, Finance
11	Member	Principal Secretary/ Commissioner & Secretary, IT
12	Member	Other Officers/ Experts as maybe co-opted
13	Member	CEO, MSSDS
14	Member Secretary	Executive Director, MSSDS