

# Financial Management Assessment Report

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Project Number: 47270

July 2014

**IND: MADHYA PRADESH DISTRICT CONNECTIVITY SECTOR  
PROJECT**

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## **A. Introduction**

1. This Financial Management Assessment (FMA) has been prepared in accordance with ADB's Guidelines for the *Financial Management and Analysis of Projects*.<sup>1</sup> The FMA considered the Madhya Pradesh Road Development Corporation (MPRDC), in its role as the proposed project executing agency (EA) on behalf of the government of Madhya Pradesh (GOMP).

2. This assessment was prepared by Mr. Chandrashekar Iyer (PPTA Consultant) and Mr. Tomoaki Kawabata (Transport Specialist, SATC) during fact-finding on 16–26 June 2014, and may be amended to reflect subsequent developments and agreements. Preparation activities included reviewing documents, interviewing counterparts and consultants, and discussing issues with stakeholders. Mitigating actions were identified together with counterparts. The financial management assessment questionnaire is given in Attachment 2. MPRDC's financial performance is shown in Attachment 3.

## **B. Program and Project Description**

3. The objective of the proposed Madhya Pradesh District Connectivity Sector Project is to improve road transport connectivity and efficiency in the state of Madhya Pradesh (MP). Major District Roads (MDRs) form a key linkage between rural roads and State Highways (SHs), connect peri-urban and urban areas, and have to be essentially developed to complete state road connectivity. Developing this network will foster inclusiveness by enabling larger segments of the state's population to better access markets and basic services. The Project constitutes (i) rehabilitating and upgrading about 1,600 km of MDRs; and (ii) improving road maintenance and asset management.

4. The project cost is estimated at \$500 million, of which the Government of Madhya Pradesh would finance 30% of the project cost equivalent to \$150 million. The balance 70% of the project cost (350 million) would be financed as loan by ADB. A Sector lending modality is being adopted, where 4 sample roads are being fully prepared as part of the appraisal. MPRDC would subsequently prepare about 43 non-sample roads on the basis of approved selection criteria and approval by ADB.

## **C. Governance**

### **1. Country-Level Status**

5. At the country level, India has a fairly long history of borrowing from ADB since 1986 and its annual borrowings are now of the order of \$2 billion. The cumulative debt from ADB has exceeded \$31.6 billion as of December 2013 and loans to transport and ICT sector exceed \$10 billion, which is approximately 32% of total lending by ADB till date.

6. ADB's Country Partnership Strategy 2013-17 notes that India manages its financial system well, maintains sufficiently large foreign exchange reserves along with a flexible exchange rate. Its economy is rated investment grade: BBB-, by Standard and Poor and Fitch, and Baa3 by Moody's. The economy had shown a downturn in the past couple of years,

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<sup>1</sup> ADB, 2009. Financial Due Diligence: A Methodology Note.

accompanied by the depreciation of the Rupee, but indications are that the economy has stabilized and started recovering. Given that India also has robust public financial management systems and strong procurement, governance, anticorruption arrangements, and monitoring institutions, the risk to the ADB assistance program at the country level is low.

## 2. State-Level Status

7. At the state level of Madhya Pradesh, ADB has been providing assistance to sectors, primarily energy and transport. ADB's assistance to MP began with a loan for the Public Resource Management Program approved in December 1999, followed by the Power Sector Development Program in December 2000, and the State Roads Sector Development Program in December 2002. Madhya Pradesh has accorded high priority to improving the road infrastructure in the state and has also been reasonably successful in attracting private sector participation in the development of roads. ADB has significant presence in the state road sector, with three previous loans to the SHs, summarized in the table below.

Loan No.	Road Length (In Km )	Loan Amount (\$, million)	Technical Assistance	Status
1959-IND Madhya Pradesh State Roads Sector Development Project (MPSRSDP)	1603	150	TA-4013-IND- Technical Assistance to India for Institutional Strengthening & Capacity Building for Madhya Pradesh State Road Sector, approved in 2002.	Project Completed.  <b>Formation of MPRDC As a result of TA</b>
2330-IND Madhya Pradesh State Roads Sector Project (MPSRSP)-II	1702	320	TA-4934-IND- Institutional strengthening of MPPWD, approved in 2007.	Project Completed.  The recommendations of TA under implementation
2736-IND Madhya Pradesh State Roads Project-III	1080	300	TA-7785-IND- Capacity Building for Road Safety and Public-Private Participation (PPP), Madhya Pradesh, approved in 2011.	Project in Progress.  Road safety aspects of TA under implementation

8. In addition, ADB's financial assistance has been used for parts of three rural roads projects<sup>2</sup> to the central line ministry (Ministry of Rural Development) under the national rural roads scheme<sup>3</sup>.

9. To date, ADB has provided assistance to Madhya Pradesh of over \$3.5 billion in various sectors. Therefore, the state also has a strong background of ADB funding. Since the present proposal has been cleared by the Ministry of Finance, government of India, under the fiscal responsibility and budget management frameworks prior to approval, the risk at the state level is also low.

### **3. Sector and Entity-level (MPRDC) Status**

10. MPRDC was incorporated under the Companies Act 1956, in 2004, and designated as a 'highway authority' to develop roads and other infrastructure. MPRDC is an empowered organization, with the Chief Minister of Madhya Pradesh being the Chairperson of the Board, and the Minister for Public Works Department (MPPWD) as well as the Chief Secretary of GOMP being Vice Chairpersons. MPRDC has also developed a strong managerial and technical team, headed by a Managing Director, who is a senior officer from the Indian Administrative Services. MPRDC's objectives are:

- To construct, reconstruct, erect, build, remodel, repair, reclaim, demolish, develop, improve, operate and maintain the roads, highways, express highways, bridges, culverts embankment, sideways, subways, flyovers, tunnels, railroads, multi-modal transport systems and infrastructure, models and complexes in India.
- To carry out all types of construction, architectural or other works under the Build-Operate-and-Transfer (BOT) scheme or under any other scheme to be formulated from time to time and for the assignment of government of Madhya Pradesh.
- To act as consultants in connection with infrastructure projects in India or Abroad.
- To act as to nodal agency of the State Govt. for executing roads and allied infrastructure projects or for objects as envisaged in above clause under public - private or joint venture basis or otherwise.
- To prepare and develop strategic plans for the state road sector and identification and selection of projects based upon economic, social for technical and commercial criteria.

11. MPRDC's revenue has increased at a cumulative annual growth rate (CAGR) of 21% from Rs. 281.3 million in FY10 to Rs. 494.7 million in FY13.<sup>4</sup> The firm has shown a predictable revenue and profit growth during the assessment period (FY10-FY13). The firm's net worth has increased from Rs. 585 million in FY10 to Rs. 1,015 million in FY13. MPRDC's financial performance is shown in Attachment 3.

### **D. Risk Analysis**

12. Overall, it must be noted that this is the fourth loan being considered for MPRDC since its formation. MPRDC is familiar with the requirements of ADB's loan, reporting system and the

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<sup>2</sup> Estimate of about \$400 million

<sup>3</sup> *Pradhan Mantri Gram Sadak Yojana (PMGSY)*

<sup>4</sup> MPRDC follows the Fiscal Year (FY) 1<sup>st</sup> April to 31<sup>st</sup> March.

processes are fairly institutionalized and well understood by the Executing Agency. Risk assessment and mitigation measures for MPRDC are listed below.

## 1. Inherent Risk

13. Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment.

<b>Risk type</b>	<b>Risk Assessment<sup>5</sup></b>	<b>Risk Description</b>	<b>Mitigation Measures</b>
1. Country-Specific Risks	N	Delay in fund disbursement can lead to cash flow problems and thereby delay project implementation	Assurances that GOMP/ MPRDC shall ensure the timely release of funds including counterpart funds to the projects as per loan covenants since the project is on reimbursement basis.
2. Entity-Specific Risks	N	MPRDC is will be developing MDRs for the first time under ADB loan.	MPRDC has implemented ADB financed projects for State Highways, and MDRs are similar. The proposed project is the fourth one to be implemented with ADB's funds.
3. Project-Specific Risks	N	Delays in funds disbursement for maintenance period would impact maintenance activities.	Maintenance funds are much lower scale than construction, and MPRDC should not have an issue managing the same. However, assurances that GOMP/ MPRDC shall ensure the timely release of funds as per loan covenants
<b>Overall Inherent Risk</b>	<b>N</b>		

<sup>5</sup> H = High, S = Substantial, M = Moderate, N = Negligible or Low.

## 2. Control Risk

14. Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Risk type	Risk Assessment <sup>6</sup>	Risk Description	Risk Mitigation Measures
<b>Control Risk</b>			
1. Funds Flow	N	Timely availability of counterpart funds for the implementation  Funds for Maintenance of MDRs need to be transferred from MPPWD to MPRDC	Necessary arrangements need to be in place in coordination with GOMP and MPPWD for maintenance purposes. Assurances in project agreements.  For the MDRs, the new EPC contracts will have a maintenance provision for the first 5 years, so obligations will be clear and known upfront.
2. Staffing	N	Existing staffing needs to be strengthened to manage the additional workload for MDRs. Responsibilities are centralised leading to additional workload.	MPRDC is adequately staffed at the moment in key positions but with additional staffing and strengthening of the finance team will help in ensuring timeliness of tasks. Dedicated staff units at field level, including for safeguards, included into the Project Administration Manual.
3. Accounting Policies and Procedures	N		The Accounts are prepared in accordance with the Indian Accounting Standards. The Comptroller and Auditor General (National Auditor for State Owned Corporations) has recorded Nil comments on the Annual Accounts for the last 3 years
5. Internal Audit	N	Compliance with statutory requirements under the Company's Act with regard to timely conduct of Board meetings and AGM	The recommendations of the Internal Auditor need to be regularly complied with

<sup>6</sup> H = High, S = Substantial, M = Moderate, N = Negligible or Low.

Risk type	Risk Assessment <sup>6</sup>	Risk Description	Risk Mitigation Measures
6. External Audit	N	The Auditor has highlighted certain potential claims on the Corporation as a contingent liability which are not provided for by the Company. The quantum of claims aggregate to Rs.80 million.	The claims are under appeal by MPRDC, which is expecting a favourable ruling.
7. Reporting and Monitoring	M	Maintenance funds received from Government are not segregated according to the category of Roads  Financial statements are not disclosed on the MPRDC website	Records of Funds flow for maintenance of MDRs need to be maintained separately.  Annual reports, which include financial statements, in hard copies are available but it is recommended to disclose through MPRDC website.
8. Information Systems	N	Record of maintenance expenses are not segregated for State Highways, Rural Roads and District Roads	ERP based accounting system is in place and suitable changes should be done in the Accounting Code and Heads to record maintenance expenditure
<b>Overall Control Risk</b>	<b>N</b>		

## **E. The Existing Project Financial Management System**

### **1. Strengths**

15. The major strengths of MPRDC are:

- Fund flows are reliable, predictable and secure.
- It is staffed with experienced finance professionals.
- It properly records the project financial transactions.

### **2. Weaknesses**

16. The major weaknesses are:

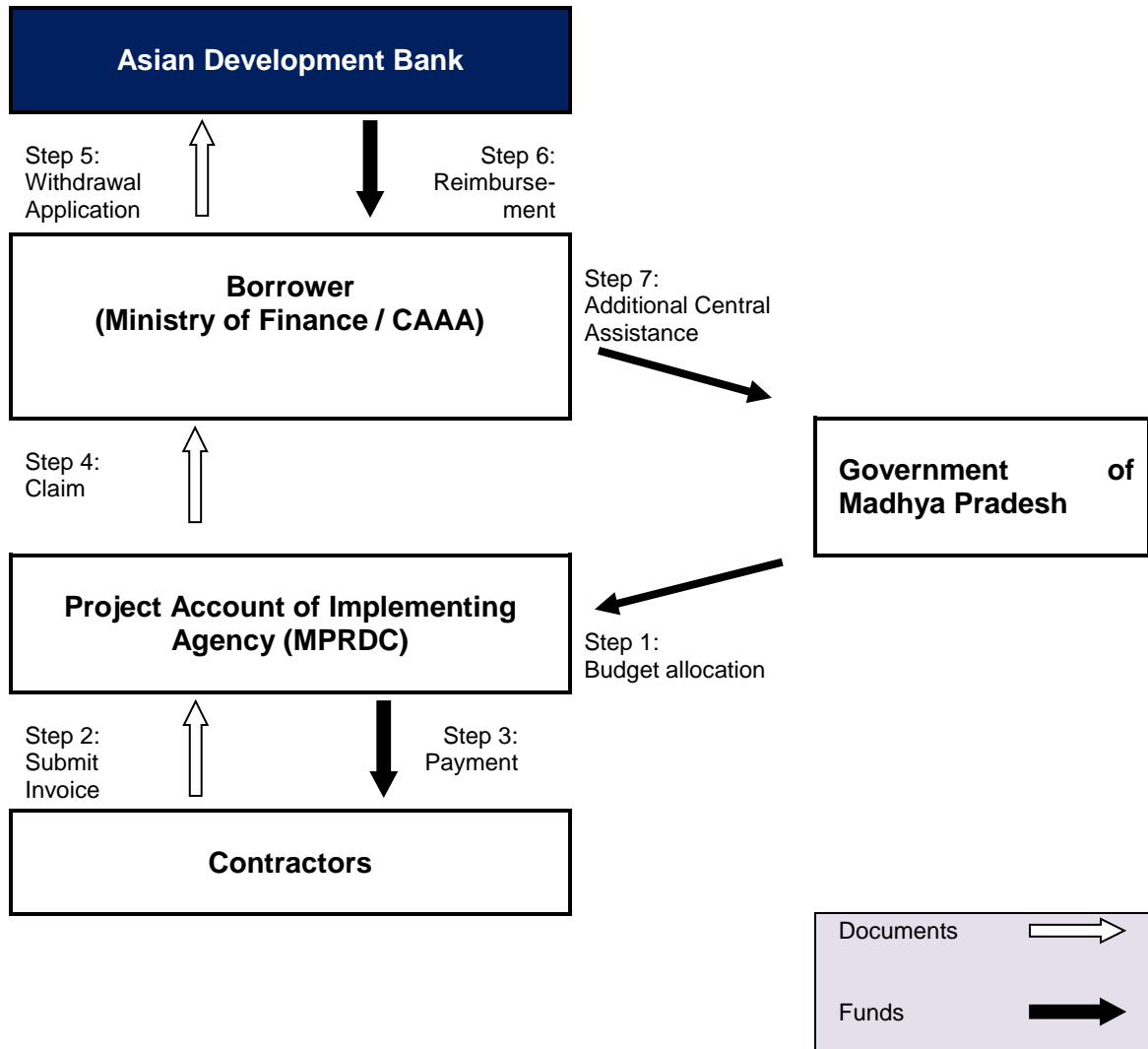
- Public disclosure of the financial statements is weak. Currently, MPRDC provides annual reports which include financial statements in hard copies only. For public accountability purpose, it is recommended that the annual reports are posted on the MPRDC website.
- Chartered Accountant and Company Secretary are currently staffed on contractual basis. This creates the risk of capacity gaps if contracts are not renewed in time. It is recommended that Company Secretary should be supported by permanent staff.



**F. Fund Flow Mechanism**

17. MPRDC, on behalf of the government of Madhya Pradesh, will be responsible for implementing the project according to the loan agreement and project agreement. Disbursement methods as outlined in ADB’s Loan Disbursement Handbook (2012) will be adopted for the project. As the main disbursement method, the loan will adopt the reimbursement method for payments.

**Funds flow arrangement for the Project Loan**



18. The Statement of Expenditure (SOE) procedure will be used to reimburse the eligible expenditure. SOE records will be maintained and made readily available for review by ADB’s disbursement and review mission or upon ADB’s request for submission of supporting documents on a sampling basis and for independent audit. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

19. GOMP will furnish MPRDC with sufficient budget for payments to the contractors based on the submitted invoices. MPRDC will then submit claims to the Borrower, who will submit them to ADB. ADB will pay to the Borrower out of the loan and the Borrower will provide Additional Central Assistance to MPRDC through GOMP.

20. **Direct payment procedures** (where ADB, at the borrower's request, pays a designated beneficiary directly) will be generally used for road improvement civil works contracts and for consulting services contracts.

### Narrative Procedures for Direct Payment Procedure

Responsible Person/ Unit	Activity
Borrower	<ul style="list-style-type: none"> <li>• completes the withdrawal application for each payment in different currency;</li> <li>• completes the corresponding Summary Sheet using a separate form for each category or subcategory;</li> <li>• attaches the contract or confirmed purchase order (PO) indicating the amount and due date; and</li> <li>• attaches the supporting documents to each withdrawal application.</li> </ul>
ADB	<ul style="list-style-type: none"> <li>• receives the accomplished forms and related supporting documents.</li> </ul>

#### G. Personnel

21. MPRDC is staffed with experienced financial specialists in its Finance & Accounts Department. The Finance and Accounts Department has been handling the function successfully since incorporation in 2004. Since then loans worth \$770 million have been availed and managed by the team. In all, including BOT & EPC (non-ADB) projects, the total value of projects implemented till date is more than \$5.5 billion. MPRDC staff has attended various trainings conducted by ADB in Manila and Bangalore. An overall organization chart of MPRDC is given as Attachment 1, with the finance and governance positions being highlighted.

#### H. Accounting Policies and Financial Reporting

22. MPRDC follows double-entry accrual-based accounting and prepares financial statements in accordance with Indian Accounting Standards.. The entity is using "Tally," which is established commercial ERP software, that is able to undertake budgeting and other functions. The accounting system has the controls in place to ensure that all transactions are correctly made and adequately explained. All accounting and supporting documents are maintained for a minimum 8 years from the date of transaction.

23. MPRDC has submitted its project financial statements for existing project in time for fiscal 2012-2013. In fiscal 2011-2012, there was two months delay in submission.

#### I. Internal and External Audit

24. The internal audit function at MPRDC is carried out by an accounting firm hired by MPRDC. The Internal Auditor's report is submitted to Managing Director of MPRDC and the same is then reviewed by Statutory Auditor appointed by CAG. The Internal Auditor in its draft report for the period from 1st January 2014 to 31st March 2014 had raised the following points:

- i. No Board meeting was held during the period from 1st January to 31st March 2014. As per section 285 of the companies Act, 1956, a company must hold a meeting of its Board of Directors at least once in every three calendar months and there should be at least four such meetings every year. However, board meetings for the First, Third and Fourth quarters were not held by the Corporation.
- ii. Annual General Meeting (AGM) was required to be held on or before 30.09.2013 as per requirement of section 166 of the Companies Act, 1956. However, AGM was only held later on 31st January 2014.
- iii. Some concessionaires for PPP projects being implemented by MPRDC are not submitting proper reports and statements. In one case, the concessionaire has not deposited money into the maintenance funds.

25. **External Audit Under C&AG.** In accordance with the requirements for audit of government companies, the office of the Comptroller and Auditor General of India has appointed Gupta Lakhani & Associates as external auditors to MPRDC for the year 2012-13 and 2013-14. The audits are conducted as per GAAP & Audit Standards issued by Government of India. The project accounts under the proposed loan shall be audited by the same firm.

#### **J. Information Systems**

26. The Information Technology Department of MPRDC has implemented “Tally” as a commercial ERP based accounting system, which makes it possible to capture the status of Accounts in real time.

27. The staff is adequately trained to run the system and the necessary safeguards with respect to confidentiality and integrity of data are in place.

#### **K. Disbursement Arrangements**

28. Disbursement methods as outlined in ADB’s Loan Disbursement Handbook (2012) will also be adopted for the project. As the main disbursement method, the loan will adopt the reimbursement method for payments. GOMP will furnish MPRDC with sufficient budget for payments to the contractors based on the submitted invoices. MPRDC will then submit claims to the Borrower, who will submit them to ADB. ADB will pay to the Borrower out of the loan and the Borrower will provide Additional Central Assistance to MPRDC through GOMP.

#### **L. Sustainability of Maintenance Funds**

29. MPRDC relies on PWD for maintenance funds and PWD in turn draws it from the budgetary resources from Government of Madhya Pradesh. MDRs are a new mandate for MPRDC and hence allocation of funds being made for MDRs to PWD will need to be transferred to MPRDC.

30. Historically, the maintenance expenditure has been within the budgetary allocation but since FY11, the maintenance expenditure exceeds the budgetary allocation every year. Secondly, the maintenance costs have been increased significantly with nearly 40% higher spent as compared to the previous year considering the needs of the State.

31. In particular, it may be noted that maintenance expenditure in FY14 increased to Rs. 641 million from Rs. 334 million in FY13 representing an increase of approximately 94%. MPRDC follows a system of spending first and then drawing from the budget but in certain years the drawal has been very low as compared to spending of previous year, the case in point being of FY13 where the budgetary drawal was Rs. 86 million vis-à-vis a spending of Rs. 234 million in FY12.

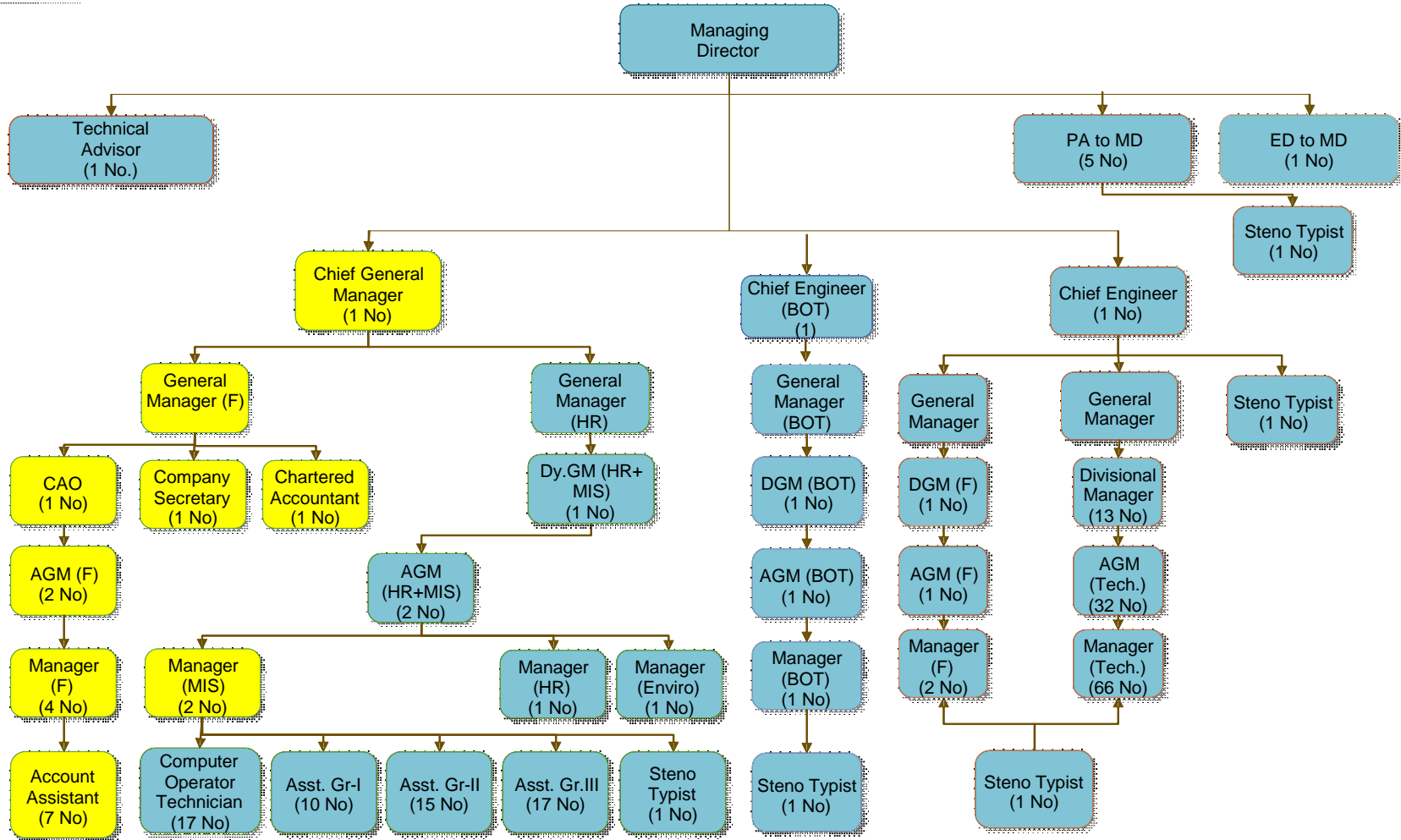
32. As far as the sustainability of funding for maintenance is concerned, MPRDC has a relatively comfortable cash position with several project accounts of the government, which provides it the flexibility to meet any immediate maintenance requirements. Moreover, MPRDC acts on behalf of GOMP, and in case of revenue requirement for specific purpose, obtains budgetary support from GOMP. This, however, is not an ideal situation as other project expenditures should not be put to risk. It would help to have a consistency in expenditure and drawal from the budget both from annual and supplementary sources to be able to meet maintenance needs without delays and maintaining the health of the road investments at the desired levels. Further accounts need to capture maintenance expenditure for different road categories to capture information and benchmark road maintenance expenditure adequacy and efficiency.

#### **M. Action Items**

The following are proposed actions:

- Assurances that counterpart funds for the project (implementation and maintenance) will be made available on time
- Recommendation to MPRDC to meet its statutory governance requirements such as Board Meetings, Annual General Meetings
- Recommendation to MPRDC to disclose its accounts statements on the web

**Attachment 1: Organization Chart for MPRDC**



## Attachment 2: Financial Management Assessment Questionnaire (FMAQ)

Sl. No.	Topic	Response
	<b>Implementing Agency</b>	
1.1	What is the entity's legal status/registration?	Wholly owned Government Company registered under the Companies Act 1956
1.2	Has the entity implemented an externally financed project in the past (if so, provide details)?	Yes , (i) Loan No. 1959 IND (ii) MPSRSP II –Loan No. 2330 IND (iii) MPSRP -III –Loan No. 2736 IND Quantum of finance, road details (section), distances: Given in Section 2 of the FMA
1.3	What is the statutory reporting required for the entity?	Annual Audited Financial Statements, Directors Report &Annual Report, Income tax return on annual basis, VAT & Service tax return on quarterly basis, Annual return under Companies Act.
1.4	Is the governing body for the project independent?	Yes, notified as State Highway Authority.
1.5	Is the organizational structure appropriate for the needs of the project?	Yes, the organizational structure and the personnel are appropriate for the project.  Details of organization structure are given in Attachment 1. Details of project implementation structure are given in the PAM.
	<b>Funds Flow Arrangements</b>	
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	ADB – Govt. of India – Government of Madhya Pradesh – MPRDC  Chart and flow of funds / money transfer: Given in FMA
2.2	Are the (Proposed) arrangements to transfer the proceeds of the loan (from the government/Finance Ministry) to the entity satisfactory?	Fund arrangements are satisfactory.
2.3	What have been the major problems in the past in receipt of funds by the entity?	This is the fourth loan in the road sector through MPRDC, and there has been no major problem in receipt of fund by the MPRDC.
2.4	In which bank will the Imprest Account be opened?	The imprest account will be opened in national scheduled bank.  Loan– ICICI Bank MP II – HDFC Bank III – PNB
2.5	Does the (proposed) project implementing unit (PIU) have experience in the management of	Yes, since MPRDC has been in involved in several ADB projects. Loan – 250 cr. II – 734.56 cr

Sl. No.	Topic	Response
	disbursements from ADB?	MPSRSP II – 1709 cr MP III – 2375 cr
2.7	Does the entity have/need a capacity to manage foreign exchange risks?	MPRDC receives funds from the state government in Rupees and hence doesn't need to manage foreign exchange risks
2.8	How are the counterpart funds accessed	Counterpart funding from the State Government through budgetary support.
2.9	How are payments made from the counterpart funds?	Through Budgetary Support.
2.10	If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	NA
2.11	Are the beneficiaries required to contribute to project cost? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	N/A
	<b>Staffing</b>	
3.1	What is the (proposed) organizational structure of the accounting department? Attach an organization chart	Organization chart attached in attachment 1, with the finance function highlighted.
3.2	Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Finance &Accounts Department have the capacity to handle the project accounting.
3.3	Is the project finance and accounting function staffed adequately	The Finance and Accts dept. has been handling the function successfully since incorporation in 2004. Since then loans worth Rs.5000 crore have been managed by the team. This is in addition to BOT & EPC (non-ADB) projects worth Rs.33,000 million managed by the department
3.4	Is the finance and accounts staff adequately qualified and experienced	Yes, finance & accounts staff is adequately qualified and experienced.
3.5	Are the project accounts and	The staff has attended various trainings conducted by ADB

Sl. No.	Topic	Response
	finance staff trained in ADB procedures?	in Manila and Bangalore
3.6	What is the duration of the contract with the finance and accounts staff?	CA / CS and Accounts Assistant are under contractual arrangement for a two year period till 2015, subject to extension of contract
3.7	Indicate key positions not contracted yet, and the estimated date of appointment	Efforts are being made to have two officers on deputation.
3.10	Does the project have written position description that clearly defines duties responsibilities, lines of supervision and limits of authority for all the officers, managers and staff?	Concerned CE has the authority to approve project related expenses. F&A dept. makes the payment subsequent to internal review and checking
3.11	At what frequency are personnel transferred?	Till date only one resource has been transferred – DGM (Finance) MPRDC is short on staff at HQ level.
3.12	What is training policy for the finance and accounting staff?	No specific training policy, but staffs are sent to external trainings on needed basis.
	<b>Accounting Policies and Procedures</b>	
4.1	Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds? Will the project use the entity accounting system	Entity is following appropriate accounting system under the Generally Accepted Accounting Principles (GAAP) in India and has the potential to capture all the project financial transactions.  The entity is using ERP software and is able to undertake budgeting and other functions.
4.2	Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes. The accounting systems itself have the control system to make sure all the transactions are correctly made with sufficient explanation.
4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes. Necessary accounts are created to monitor the project & its disbursement in the Chart of accounts.
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements	Yes, cost are properly allocated in line with the Chart of accounts
4.5	Are General Ledger and subsidiary ledgers reconciled	Yes they are in balance.



Sl. No.	Topic	Response
	and in balance	
4.6	Are all accounting and supporting documents retained on a permanent basis in a defined system and allows authorized users easy access?	Yes. In the form of soft copies as well as hard copies in secured places. As per the Companies Act and Income Tax Act, the records are maintained for minimum 8 preceding years.
	<b>Segregation of Duties</b>	
4.7	Are the following functional responsibilities performed by different units or persons (i) authorization to execute a transaction ii) recording of the transaction and (iii) custody of assets involved in the transaction?	Yes. Segregation of duties is maintained in all functional activities as part of the internal control system.
4.8	Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, the job description and allocation provides for the same with various department been assigned the respective jobs
4.9	Are bank reconciliation prepared by someone other than those who make or approve payment	Yes, separate personnel are assigned.
	<b>Budgeting System</b>	
4.10	Do budgets include physical and financial targets?	Yes, both the targets are included
4.11	Are budgets prepared for all significant activities in sufficient details to provide a meaningful tool with which to monitor subsequent performance?	Yes budgets are prepared on time and variance analysis done accordingly.
4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, explanations are taken for variances
4.13	Are approvals for variations from the budget required in advance or after the fact?	Approval for the variations from the budget is required in advance to process the transaction
4.14	Who is responsible for preparation and approval of budgets?	Respective departments prepare the department level budget which is then consolidated in F&A and approval obtained on the same from Board through MD.
4.15	Are the procedures in place to plan project activities, collect information from the units in	Advance requirement for the preparation of the budget from each departments & units the planned activities with sufficient information & justification for the coming year.

Sl. No.	Topic	Response
	charge of the different components and prepare the budgets?	
4.16	Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes. It is planned with the latest information available.
	<b>Payments</b>	
4.17	Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparisons of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Well defined invoice processing procedure in the computerized accounting system is practiced. Invoice once submitted by contractor is received by concerned CE through SQC consultant with their checking and recommendation for payment. Project section under the CE shall check the same and forward to F&A for checking. After checking by F&A the finalized bill shall be resubmitted to CE for final approval. Subject to CE's approval, payments are released.
4.18	Are all invoices stamped PAID, dated, reviewed and approved and clearly marked for account code assignment	Yes
4.19	Do controls exist for the preparation of the payroll and are changes to payroll properly authorized?	Appropriate authorization procedures according to government rules are followed. There is process of audit as a control measure, within MPRDC as well as external.
	<b>Policies and Procedures</b>	
4.20	What is the basis of accounting (e.g. cash, accrual)?	Accrual Basis as per the Companies Act, 2013
4.21	What Accounting Standards are followed?	Accounting standards prescribed by Central Government and recommended by ICAI are followed.
4.22	Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	
4.23	Is the accounting policy and procedure manual updated for the project activities?	Guidelines are revised on timely manner to make sure it is updated and fulfill the needs.
4.24	Do procedures exist to ensure that only authorized persons	Yes .It is being done only by authorized personnel e.g. GM (Fin) and / or Chartered Accountant.

Sl. No.	Topic	Response
	can alter or establish a new accounting principle, policy or procedure to be used by the entity?	
4.25	Are there written policies and procedures covering all routine financial management and related administrative activities?	No manual exists as of the moment.
4.26	Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguard to protect the organization from them?	N/A
4.27	Are the manuals distributed to appropriate personnel?	N/A
	<b>Cash And Bank</b>	
4.28	Indicate names and positions of authorized signatories in the bank accounts.	1. Dr. Arun Paliwal                      General Manager (F) 2. Mr. Piyush Chaturvedi            General Manager (BOT) 3. Mr. Mukesh Jain                      Chartered Accountant
4.29	Does the organization maintain an adequate up-to-date cashbook, recording receipts and payments?	Yes, updated records are maintained on daily basis.
4.30	Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Not applicable
4.31	Are banks and cash reconciled on a monthly basis?	Yes on a monthly basis. In fact the same is tallied on daily basis.
4.32	Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes. This is done through GM (Finance).
4.33	Are all receipts deposited on a timely basis?	Funds from State Government are transferred to MPRDC account through RTGS
	<b>Safeguards over Assets</b>	
4.34	Is there a system of adequate safeguards to protect assets from fraud, waste and abuse	Yes. The fixed assets are adequately safeguarded.
4.35	Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes proper records are kept and reconciled quarterly
4.36	Are there period physical	Yes. This is being done by Internal audit personnel yearly.

Sl. No.	Topic	Response
	inventories of fixed assets and stocks	
	<b>Other Offices and implementing entities</b>	
4.38	Are there any other regional offices or executing entities participating in implementation?	MPRDC has 7 Divisional Offices across the state (Bhopal, Indore, Ujjain, Gwalior, Sagar, Jabalpur & Rewa)
4.39	Has the project established controls and procedures for flow of funds, financial information, accountability and audits in relation to the other offices or entities?	MPRDC has an established procedures and controls for supervising the Divisional Offices
4.40	Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes, proper MIS structure and information flow exists on monthly basis through Monthly Progress Reports.
4.41	Are periodic reconciliation performed among the different offices/implementing agencies.	Yes, on monthly basis
4.42	Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	There are government circulars on reporting of any suspected fraud and misuse of fund. This has been communicated through MPRDC training sessions.
<b>5.</b>	<b>Internal Audit</b>	
5.1	Is there an internal audit department in the entity?	Internal audit is being carried out by external internal auditor and Chartered Accountant.
5.2	What are the qualifications and experience of audit department staff?	All the staffs in the audit department are adequately qualified CAs & have experience to carry out the internal audit within the organization.
5.3	To whom does the internal auditor report?	Managing Director
5.4	Will the internal audit department include the project in its work program?	Yes, It will be included for the projects.
5.5	Are actions taken on the internal audit findings?	Yes. The internal auditor's findings are rectified internally and are subject to review by internal auditor in subsequent audit. The Internal Auditor's report is submitted to MD and the same is then reviewed by Statutory Auditor appointed by CAG. MPRDC being a government organization, CAG also conducts its audit.
<b>6.</b>	<b>External Audit</b>	

Sl. No.	Topic	Response
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	The Auditor General has appointed Gupta Lakhani & Associates as our external Auditor auditors for the year 2012-2013 and 2013-2014.
6.2	Are there any delays in audit of the entity? When is the audit reports issued?	No. the audit reports are received before the mid of the following year.
6.3	Is the audit of the entity conducted according to the international Standards on Auditing?	Yes. The audits are conducted as per GAAP and Accounts & Audit Standards issued by Govt of India.
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	No major issues highlighted
6.5	Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The external auditors do the audit for both Project & Financial.
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Recommendations made by the auditors in the management letter are being implemented
6.7	Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Accounts are independently audited by CAG
6.8	Has the project prepared acceptable terms of reference for an annual project audit?	For the project audit the terms of reference are drawn from the funding agencies guidelines
<b>7.</b>	<b>Reporting and Monitoring</b>	
7.1	Are financial statements prepared for the entity? In accordance with which accounting standards	Financial Statements prepared in accordance with the applicable accounting standards.
7.2	Are financial statements prepared for the implementing unit?	Financial statements are prepared Division wise and project wise and are then consolidated at HO.
7.3	What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision	On quarterly basis.  Reports are prepared within first fortnight of the following month after end of quarter

Sl. No.	Topic	Response
	making?	
7.4	Does the reporting system need to be adapted to report on the project components?	Report on the project components is the part of the reporting system.
7.5	Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile 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 synchronies with the financial data?	Reporting system captures both physical and financial progress.
7.6	Does the project have established financial management reporting responsibilities that specify what reports are to be prepared what they are to contain, and how they are to be used?	Yes, ongoing projects do have the same
7.7	Are financial management reports used by management?	Financial Management Reports are used by management regularly for monitoring of project progress and for Board Meetings
7.8	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes variance analysis are done
7.9	Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	By combination of both.
<b>8.</b>	<b>Information Systems</b>	
8.1	Is the financial management system computerized?	Yes. We are using ERP based accounting system
8.2	Can the system produce the necessary project financial reports?	Yes. Currently the monitoring reports are being generated from the system
8.3	Is the staff adequately trained to maintain the system?	Yes, they are properly trained
8.4	Does the management organization and processing	Yes the system are in place

SI. No.	Topic	Response
	system safeguard the confidentiality, integrity and availability of the data?	

### Attachment 3: Financial Performance of MPRDC

#### Statement of Profit and Loss

For the years ended 31 March

(Rs.'000s)	2010	2011	2012	2013
Revenue				
Revenue from Operations	149,615	216,431	268,537	272,595
Other Income	131,703	105,279	163,637	222,177
<b>Total Revenue</b>	<b>281,318</b>	<b>321,710</b>	<b>432,174</b>	<b>494,772</b>
<b>Total Expense</b>	<b>139,020</b>	<b>147,219</b>	<b>170,562</b>	<b>234,437</b>
<b>Profit Before Tax</b>	<b>142,297</b>	<b>174,491</b>	<b>261,612</b>	<b>260,335</b>
<b>Tax Expense</b>	<b>21,668</b>	<b>34,551</b>	<b>52,589</b>	<b>51,594</b>
<b>Profit for the Year</b>	<b>120,630</b>	<b>139,940</b>	<b>209,023</b>	<b>208,741</b>

#### Balance Sheet

As at 31 March

(Rs.'000s)	2010	2011	2012	2013
Current Assets	3,188,460	5,829,470	9,154,227	7,169,644
Non-current Assets	12,199	43,795	116,756	193,518
<b>Total Assets</b>	<b>3,200,658</b>	<b>5,873,265</b>	<b>9,270,983</b>	<b>7,363,162</b>
Current Liabilities	2,614,813	5,182,027	8,417,364	6,347,750
Non-current Liabilities	0	302	151	0
<b>Total Liabilities</b>	<b>2,614,813</b>	<b>5,182,329</b>	<b>8,417,514</b>	<b>6,347,750</b>
Shareholders' Funds				
Share Capital	180,000	190,000	200,000	200,000
Reserves and Surplus	405,846	490,935	653,469	815,412
<b>Total Shareholders' Funds</b>	<b>585,846</b>	<b>680,935</b>	<b>853,469</b>	<b>1,015,412</b>
<b>Total Liabilities and Shareholders' Fund</b>	<b>3,200,658</b>	<b>5,863,265</b>	<b>9,270,983</b>	<b>7,363,162</b>

#### Key Financial Ratio

As at 31 March

	2010	2011	2012	2013
Total Debt to Equity Ratio	446.3%	761.1%	986.3%	625.1%
Long-Term Debt to Equity Ratio	0.00%	0.04%	0.02%	0.00%
Current Ratio (Current Assets/Current Liabilities)	121.9%	112.5%	108.8%	112.9%

Source: MPRDC Annual Reports