

FINANCIAL MANAGEMENT ASSESSMENT

EXECUTIVE SUMMARY

1. A financial management assessment (FMA), which was conducted in accordance with ADB's guidelines¹ in middle of 2016 as part of the ADB funded Demand Side Energy Efficiency Sector Project², has now been updated in July 2019. The FMA considers Energy Efficiency Services Limited (EESL), a state-owned entity, in its role as the Executing Agency (EA) and implementing agency (IA) for the project.

2. The objectives of the FMA are to obtain comfort that the financial management arrangements at country, entity and project levels are sufficient to manage the financial risks, whether the institutional capacity is sufficient to justify loan approval, identify the entity's financial management (FM) needs, and confirm that the financial management is sufficient to support long term project sustainability. The FMA at the entity level is focused on funds flow, staffing, accounting policies and procedures, budgeting system, payments, policies and procedures, cash and bank, contract management and accounting, internal controls, and internal and external audit, reporting and monitoring, and information systems in relation to administering the proposed loan.

3. EESL was set up as a government-owned energy services company (ESCO) to facilitate energy efficiency investments, including work designing, implementing, monitoring and investing in energy efficiency projects. EESL has successfully implemented several sub projects in the areas of municipal lighting, domestic lighting, and agriculture demand-side management over the last few years. ADB assistance will be used to support several energy efficiency subprojects, some of which are already identified by EESL and others that will be developed during project preparation and implementation.

4. EESL's relative strengths in financial management are as follows:

- i. Good corporate governance and compliance with statutory provisions;
- ii. EESL has well qualified and experienced finance and accounting staff, which has enabled to consistently complete audit of its financial statements within the statutory time limit;
- iii. EESL also has its own set of accounting policies, procedures and manuals;
- iv. EESL has adequate experience in the implementation of ADB financed projects and finance department staff are familiar with ADB financial management procedures;
- v. An integrated Enterprise Resource Planning (ERP) system has been implemented since April 1, 2018.

5. Relative FM weaknesses are as follows:

- i. EESL's trade receivables have increased sharply, leading to undue pressure on its cash flows.

6. The overall financial management risk is assessed as **Moderate**. Based on our assessment of EESL's financial management (FM) risk rating, the following Financial Management Action Plan has been agreed:

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence, A Methodology Note*; ADB. 2015. *Financial Management Technical Guidance Note – Financial Management Assessment*. Manila

² Asian Development Bank. 2016. *Energy Efficiency Services Limited, Demand Side Energy Efficiency Sector Project*. Report and Recommendation of the President. Asian Development Bank. Manila.

I. Financial Management Action Plan

Table1: Financial Management Action Plan

S. No.	Risk Description	Mitigation Actions	Responsibility	Timeframe
1	Counterparty Risk. Increase in trade receivables. Most of EESL's project payments come from urban local bodies and distribution companies, which are known to have uncertain cash flows, leading to delayed payments to EESL. Trade receivables have increased substantially over the years, resulting in reduction of planned project return as also Equity internal rate of return (IRR).	1.EESL has established a framework to monitor the various payment securities like escrow accounts and government guarantees provided by its customers.	EESL	1. Reduce average trade receivables for the year to a)250 days billable revenue–by March 2020. b) 200 days billable revenue–by March 2021. c) 150 days billable revenue–by March 2022. 2. EESL to appoint a chief risk officer (supported by qualified staff) to formulate and implement a risk policy by March 2020.
2	Inadequate provisioning for bad and doubtful debts. Even though trade receivables have increased substantially, as per the statutory auditors, EESL has not been able to demonstrate proper assessment of receivables and subsequently, the basis for providing for bad and doubtful debts.	A. Conduct credit assessment of customers, their track record of payment and formulate a revised bad and doubtful debt policy. B. Implement the bad and doubtful debt policy.	EESL	A. Formulate a revised bad and doubtful debt policy–September 2020. B. Implement policy–March 2021.
3	Business Risk. Strategic shift in business from urban local bodies (ULBs) to distribution companies (Discoms) and private sector and also increased investment in overseas businesses. Realignment of business with increasing focus on smart meters, distributed solar, energy efficient motors, etc. is likely to lead to increased exposure to Discoms and private sector. Doing business with private	A. Appoint a Chief Risk Officer (who will be supported by qualified staff) for formulating and implementing a Risk Policy by evaluating various risks and advising EESL on mitigating measures including pricing of products, payment security mechanisms, etc.	EESL	A. Appoint Chief Risk Officer–March 2020. B. Formulate Integrated Risk Management Policy–December 2020.

S. No.	Risk Description	Mitigation Actions	Responsibility	Timeframe
	sector also needs appropriate financial risk appraisal mechanisms. EESL has also made substantial investments in Energy Service Company (Esco) business in the UK. This could also lead to increased financial risks.	B. Formulate an Integrated Risk Management Policy for financial risk rating based on industry/business segment, customer profile and financial performance, etc. which will guide EESL in the areas of pricing, payment security mechanism, exposure amounts, etc.		
4	<p>Inadequate Management Information System (MIS) for monitoring of projects.</p> <p>Currently, EESL does not have a Management Information System (MIS) manual for enabling a standardized methodology for monitoring project performance. This has led to issues like increasing receivables, inadequate monitoring of payment security, etc.</p>	Prepare a manual for MIS which will enable management to monitor performance of various activities of the company including projects, timely realization of payments, periodic reconciliations of receivables/payables balances, status of creation and maintenance of payment security commitments by customers, etc. and take timely corrective measures.	EESL	MIS manual developed - September 2020
5	<p>Organization structure and human resources to keep pace with changes in business strategy.</p> <p>EESL's growth plans involve entering new business segments as also enlarging its geographical presence. This will require structural changes in the organization, increased human resources requirement, need for capacity building, etc. to meet its growth requirements.</p>	Preparation and implementation of an action plan with focus on organization structure and human resources management to meet the dynamic business strategy of EESL	EESL	Preparation of action plan – September 2020 Implementation – Continuous (as per the plan)

7. **Stipulation of additional financial covenant.** Based on the FM assessment, it is proposed to stipulate an additional financial covenant as detailed below (in addition to the existing financial covenants):

a) EESL will

- (i) reduce its average trade receivables for the year to:
 - a. not more than 250 days of billable revenue by 31st March 2020;
 - b. not more than 200 days of billable revenue by 31st March 2021;
 - c. not more than 150 days of billable revenue by 31st March 2022;

- (ii) EESL will continue to meet the following financial covenants stipulated in the earlier loan.
 - a. maintain a debt to equity ratio (long-term debt divided by equity net of accumulated profits/losses) not exceeding 80:20;
 - b. maintain a debt service coverage ratio (net cash flow from operations divided by debt service obligations, including all principal payments and tax-shielded interest and lease payments falling due within the year) of least 1.2;
 - c. maintain a current ratio (current assets divided by current liabilities) of at least 1.0.

DETAILED ASSESSMENT

I. INTRODUCTION

8. The Financial Management Assessment (FMA) conducted in 2016 in accordance with ADB's guidelines has now been updated in July 2019. The FMA focused on: (i) review of country diagnostic studies, including the country financial accountability assessment, country governance assessment prepared by various agencies; (ii) evaluation of the EESL's financial performance and financial management arrangements; (iii) risk assessment and preparation of a risk management plan; and (iv) proposal of appropriate covenants to address issues identified.

II. PROJECT DESCRIPTION

9. Energy Efficiency Services Limited (EESL) was created by the Ministry of Power (MOP) within the Government of India as the energy efficiency implementation arm of the MOP and Bureau of Energy Efficiency (BEE). It is positioned to lead the market-related action of the National Mission for Enhanced Energy Efficiency (NMEEE). ADB will provide a loan to EESL, to be guaranteed by the Government of India, to support demand-side energy efficiency investments in several Indian states. ADB's loan will enable EESL to meet various business opportunities, including on-grid distributed renewable energy in the "last mile" of on-grid supply to rural agricultural areas, smart meters and electric mobility in various states of India.

10. A financial management assessment (FMA), which was conducted in accordance with ADB's guidelines in mid-2016 as part of the ADB funded Demand Side Energy Efficiency Sector Project, has now been updated in July 2019. The FMA considers Energy Efficiency Services Limited (EESL), a state-owned entity, in its role as the Executing Agency (EA) and implementing agency (IA) for the project.

11. The FMA reviewed two types of risks: (i) inherent risks; i.e., risks outside the direct control of the financial management of executing agency, and (ii) control risks; i.e., risks concerning the internal functioning and control of the finance and accounting section of executing agency. The FMA also evaluated the risks associated with project financial management arrangements, as the project funds should be used economically and efficiently for the purpose.

III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

12. The Indian Public Financial Management (PFM) system is very complex, large and has multiple layers. Relatively few PFM assessments have been prepared for the country in recent years.

13. **Country level PFM risk assessment from ADB's country partnership strategy for India.** ADB's previous (2013-2017) Country Partnership Strategy (CPS) for India noted that PFM at the country level is strong and India manages its financial system well.³ The CPS concluded that given that India has robust public financial management systems and strong procurement, governance, and anticorruption arrangements and monitoring institutions, the risk to the ADB assistance program in these areas is low.

³ ADB. 2012. *India – Country Partnership Strategy 2013-2017*. Manila.

14. The risk assessment and risk management plan included in the previous CPS elaborated that the strength of the PFM system arises from:

- (i) a well-organized and systematic approach to budget formulation;
- (ii) a high level of fiscal transparency;
- (iii) comprehensive recording and management of cash balances, debt, and guarantees by the Government of India; and
- (iv) timely external audit by the comptroller and auditor general (CAG) of India of PFM systems.

15. The current (2018–2022) CPS for India makes limited mention of financial management, although improving public financial management at the state and urban levels is deemed an important component of the strategic pillar aimed to provide inclusive infrastructure networks and services.⁴ Particular emphasis on improving systems and capacities for procurement, contract management, and accounting is noted.

16. However, as EESL is a corporate entity under the Companies Act, 2013, its FM system is relatively robust and adheres to the guidelines of the Institute of Chartered Accountants of India.

IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

A. EESL Organization Structure

17. EESL was incorporated in December 2009, pursuant to a joint venture agreement executed between four power sector companies - **NTPC**, Power Finance Corporation (PFC), Rural Electrification Corporation (REC) and Power Grid Corporation of India (PGCIL). While NTPC and PFC hold 36.4% each, REC holds 21.7% and PGCIL holds the balance 5.5% of the share capital of EESL. EESL is managed by a 9 member Board of Directors with the Managing Director as the administrative head. While NTPC, PFC, REC and Ministry of Power, GOI, have one nominee each (4 Nominee Directors) on the Board, there are 2 Independent Directors and 2 Executive Directors, apart from the Managing Director. The chairman of the Board is the Nominee Director of PFS. The details of the Directors of EESL is enclosed as Appendix A.

18. As required by the Companies Act, 2013, the Board of EESL has also constituted various committees viz., audit committee, nomination and remuneration committee, and Corporate Social Responsibility (CSR) committee for assisting the Board in governing the affairs of the company.

B. Personnel, Accounting Policies and Procedures, External and Internal Audit

19. **Staffing.** EESL's Managing Director is assisted by a team of senior executives including Director (Commercial) (who is also the CFO), Director (Projects & Business Development), five Heads of Departments (Human Resources, Consultancy & GEF 6, Corporate Planning & Business development, E vehicles and CSR) and other senior executives. The Managing Director has extensive experience in the energy efficiency industry, having previously worked as Secretary in the Bureau of Energy Efficiency. An organization chart is attached as Appendix B.

20. EESL's current staff strength consists of 264 permanent employees and 654 who are employed on a contractual basis. With adequate qualified manpower available in India and considering that the employer is a public sector company, recruitment of qualified and

⁴ ADB. 2017. *India, 2018–2022—Accelerating Inclusive Economic Transformation*. Manila.

experienced personnel is not expected be a challenge. The age at which the employees retire in EESL is 60 years.

21. **Finance and accounts staffing.** EESL’s finance and accounts department is headed by Director (Commercial), who is also the Chief Financial Officer. He is supported by three Assistant General Managers (AGM) (Accounts finalisation, Borrowings & Project Payments and Taxation & Audit). All the AGMs have been with EESL for at least 5 years with Director (Commercial) having joined the company in more than 3 years ago. The senior executives are assisted by 32 officer level staff. All officer level staff are professionally qualified in at least one of chartered accountancy, cost accountancy, and business management. Organization chart for the finance and accounts department is provided in the Appendix D. The level of staffing in the finance unit is adequate. There is no significant vacancy. It is assessed that current level of staff in EESL is adequate to meet its operation size and investment projects. All staff undergo training periodically on a need basis. Table 2 provides the qualification and retirement details of the senior executives in the Finance department of EESL.

Table 2. Brief details of Senior Executives in Finance department

Position	Qualification	Year of retirement
Director – Commercial & CFO	B.Com. (Hons.), ICWA	On Contract
AGM – Finance (Accounts Finalization)	B.Com. (Hons.), ICWA, CA	2028
AGM – Finance (Taxation and Audit)	B.Com. (Hons.), ICWA, CA	2033
AGM – Finance (Borrowings & Project Payments)	B.Com. (Hons.), CA	2030

CFO = chief financial officer; AGM = assistant general manager

22. **Accounting policy and procedures.** EESL follows the accrual basis of accounting. EESL currently follows accounting standard promulgated by the Institute of Chartered Accountants of India (ICAI), as required under the Companies Act 2013. The basis of EESL’s accounting is accrual. Currently the ICAI has stipulated 28 accounting standards as mandatory, of which 22 are applicable to EESL. In 2007 ICAI commenced the process of developing a complete set of accounting standards that are converged with international finance reporting standards (IFRS) – known as Indian Accounting Standards (Ind AS).⁵ EESL’s accounting policies relating to income recognition are currently based on energy services industry practices. Every contract is given a work code and all activities are tracked. Accounting for each contract is also done separately. All contracts are linked to the respective dashboards for on line monitoring. This will enable EESL to submit the audited project financial statements to ADB.

⁵ The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommends these standards to Ministry of Corporate Affairs, which has on February 16, 2015 notified a phased implementation of adoption of the Indian Accounting Standards (Ind AS) by all companies, whereby they need to prepare accounts as per Ind AS latest for accounting period commencing April 1, 2017, depending on the classification in the notification. Insurance companies, banks and non-banking financing companies also need to adopt Ind Accounting Standards (AS) as per a separate schedule notified on January 18, 2016.

23. **Segregation of duties.** EESL has a robust organization structure including a well-defined system of segregation of duties and responsibilities. EESL's Board has approved a detailed delegation of powers to guide the operations of EESL.

24. **Budgeting system.** A budget is prepared in detail for all significant activities and provides the benchmark for budget variance analysis. EESL's physical targets and progress of various projects are reviewed by the Secretary (Power) of the Government of India on a weekly basis. The Managing Director and the Directors also review the progress of projects as required. Targets and project implementation progress of a number of projects of EESL is available for monitoring on a real-time basis on the respective Dashboards available online.

25. **Payments.** Payments are made against invoices submitted after due verification. The payments are processed only after all the terms and conditions prescribed in the Letter of Award have been satisfied. The quantity, rate/price, taxes, location, etc. are all verified during the payment process. The original invoice is verified by a site engineer before payment is made. All original invoices are kept with an accounting voucher for verification during audit. In the case of salary payments, whenever an employee joins or resigns, an office order is circulated from the company's Human Recourse Department and this feeds into EESL's payroll.

26. **Delegation of Powers and other policies.** The Delegation of Powers as approved by the Board of EESL provides detailed guidelines regarding the powers that can be exercised by various personnel of EESL. EESL has its own guidelines, policies and procedures for procurement of various goods and services. EESL has also adopted a Corporate Social Responsibility (CSR) Policy in accordance with the Companies Act, 2013.

27. **Anti-Corruption System.** The Board of Directors and senior management personnel are governed by EESL's Code of Conduct. EESL is also guided by the Human Resources Policy Manual of one of its promoters (NTPC). EESL's fraud prevention policy is designed to ensure that officials undertaking transactions for EESL conduct themselves in a transparent and consistent manner. EESL's "whistle blower" policy is designed to build and strengthen a culture of transparency and trust in the organization and to provide employees a framework and procedure for responsible and confidential reporting of improper activities within the company.

28. **Cash and Bank.** EESL maintains accounts with a number of domestic banks. Some bank accounts are exclusively utilized for making tax related payments. All payments are made only on the basis of joint signatures of authorized signatories. All banking transactions are recorded in the books of accounts on a daily basis. All payments are made through bank and cash is handled only in the form of imprest accounts with authorized individuals. Bank reconciliation is done every month.

29. **Safeguard over assets.** Periodic reconciliation of office assets with the register is conducted. All office assets are insured. Project assets are also being covered under EESL's insurance. While project assets are transferred to beneficiaries at the end of the project period without any additional payment, all other assets are disposed of through a bidding process at the end of their useful life.

30. **Debtor management.** EESL's trade receivables amounted to Rs18320 million (on revenues of Rs18380 million) as of March 31, 2019, of which receivables due for over 180 days amounted to Rs9530 million (52% of revenue) as against Rs7310 million (63% of revenue) in FY2018. This indicates that while total outstanding amounts have increased in line with increase in revenue, the receivables more than 180 days has come down from 63% of revenue to 52% of revenue, indicating substantial collections of outstanding amounts over 180 days. With a view to give focused attention to improve collections, EESL has setup a

Commercial department headed by Director (Commercial) to continuously monitor and collect payment from its customers. The Director is supported by one General Manager and two officers in this endeavor. This has resulted in increased collection of older outstanding amounts during FY2019. Also, as committed to ADB, EESL has established a framework for monitoring various payment securities created in its favor by its customers. EESL is also working with State Governments to receive payment directly from Government, instead of individual urban local bodies. This also has resulted in reduction of receivables. With a view to improve liquidity position, EESL has agreed with ADB to reduce its trade receivables to 250 days of billable revenue by 31 March 2020 and to 150 days of billable revenue by 31 March 2022.

31. **Other offices and implementing units.** Project implementation is done by various project offices. EESL has also set up eight regional offices. These offices manage their financial requirements through imprest accounts. All project expenditures as also their accounting are managed centrally from the head office. All projects are managed by a project team comprising the regional project manager and a team of engineers.

32. **Internal audit.** EESL currently outsources its internal auditing to an external chartered accountancy firm. Internal audit is usually conducted on a half yearly basis and formal reports are submitted. The internal audit report and a report detailing follow up actions recommended and taken are submitted to the audit committee. EESL regularly takes appropriate corrective actions on all the internal audit observations. Internal audit observations have ranged from observations on statutory dues, contractual obligations, procurement issues, accounting policy and internal control. The statutory auditors, in their audit report for 2017-2018, have opined that there are adequate internal control procedures commensurate with the size of the company and the nature of its business. During FY19, EESL revised the scope of work of the Internal Auditor. The internal auditor has since conducted internal audit as per the revised TOR and submitted its report to the Audit Committee. As per the report, the Internal auditor has confirmed that EESL follows Indian GAAP and its own accounting policies. The report also confirms that EESL's bank reconciliation statements, interest, commitment fees and guarantee commission charges accounting are all in order. Some of the major observations of the internal auditor includes late receipt of installation certificate from customers leading to delayed raising of invoice and non-charging of surcharge for late payments. The company has indicated that it will take appropriate measures in this regard.

33. **External audit.** The external audit is conducted by the statutory auditor appointed by the Comptroller & Auditor General of India (CAG). M/s KK Soni & Co. is the current statutory auditors of EESL. During the past few years, EESL has finalized its audited accounts well within the 6 months limit provided under the Companies Act, 2013. After the completion of audit by the statutory auditor, CAG also conducts its own review. While there were no major observations either by the statutory auditors or by the CAG upto the year ending 31 March 2017, for the years ending 31 March 2018 and 31 March 2019, the Statutory Auditor has issued a qualified audit report. The auditors have highlighted the issue of increased accounts receivables and have noted that a significant amount is due for more than 360 days. The auditors have also pointed out that the company has not furnished assessment of credit risks based on ageing of debtors, nature and credit worthiness of debtors, etc. The auditors have also stated that they are unable to quantify if the provision of doubtful debt provided by EESL is adequate or not. EESL has indicated that it is taking action to address these issues.

34. **Secretarial audit.** As required by Companies Act, 2013, EESL appoints a company secretarial firm to conduct a secretarial audit. The most recent audit for FY2017-18 noted that EESL has complied with all applicable legislation, except for utilising only a part of the CSR funds allocated for the purpose. The company management has indicated that this matter is receiving their consideration.

C. Financial Reporting Systems

35. **Reporting and monitoring.** EESL, from April 2018, implemented an integrated Enterprise Resource Planning (ERP) system including the following modules – Finance & Control (FICO), Materials Management (MM), Sales & Distribution (S&D), Project System (PS) and Human Capital Management (HCM). With the implementation of the ERP, financial reports including Profit & Loss account and Balance sheet are being prepared automatically. Any required information can be easily accessed from the system.

36. **Information Systems.** ERP which has been implemented effective April 2018 is expected to integrate project management, human resources, finance and accounts, payroll, fixed assets, procurement, management information systems, document management and business intelligence reporting.

D. Disbursement Arrangements and Funds Flow Mechanisms

37. Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook, 2017, (as amended from time to time), and detailed arrangements agreed upon between the EESL and ADB. The reimbursement mechanism is preferred. The option to use an advance account will also be kept open,

38. The proposed fund flow mechanism is enclosed as Appendix C.

V. RISK DESCRIPTION AND RATING

39. **Risk Assessment.** Table 3 summarizes the financial management risk assessment and proposes risk mitigation and management measures.

Table 3: Financial Management Internal Control and Risk Assessment (FMICRA)

Risk Type	Risk Rating	Risk Description	Mitigation Measures
A. Inherent Risks			
1. Country specific risks	Low	There is no significant weakness in the budgetary process or in the public sector accounting and reporting system that are expected to directly impact on EESL (to the extent that entity and project financial management are at risk). Public and private sector auditing standards and capacity are generally adequate.	None required.
2. Entity specific risks	Moderate	Business Risk. Strategic shift in business from ULBs to Discoms and private sector and also increased investment in overseas businesses is being implemented by EESL. Realignment of business with increasing focus on smart meters, distributed solar, energy efficient motors, etc. is likely to lead to increased exposure to Discoms and private sector. Doing business with private sector also needs appropriate financial risk appraisal mechanisms. EESL has also made substantial	1.EESL to appoint a Chief Risk Officer (who will be supported by qualified staff) for formulating and implementing a Risk Policy – by March 2020. 2.EESL to formulate an Integrated Risk Management Policy for financial risk

Risk Type	Risk Rating	Risk Description	Mitigation Measures
		investments in ESCO business in the UK.	rating by December 2020.
	Moderate	Operational Risk. EESL's growth plans involve entering new business segments as also enlarging its geographical presence. This will require structural changes in the organisation, increased human resources requirement, need for capacity building, etc. to meet its growth requirements. Organisation structure and Human resources need to keep pace with changes in business strategy. There is an urgent need for the preparation and implementation of an action plan with focus on organisation structure and human resources management to meet the dynamic business strategy of EESL	EESL to prepare an action plan for restructuring organization structure to meet EESL's business strategy – September 2020 Implementation - Continuous
Overall Inherent Risk	Moderate		
B. Control Risk			
1. Executing agency	Low	Compliance Risk: EESL has adequate experience in implementing ADB projects and is familiar with ADB's financial management and disbursement requirements	None required
	Substantial	Counterparty Risk: Most of EESL's project payments come from urban local bodies and distribution companies, which are known to have uncertain cash flows, leading to delayed payments to EESL. The accounts receivables outstanding has been increasing over the years resulting in reduced project returns. With a view to give focused attention to improve collections, EESL has setup a Commercial department headed by Director (Commercial) to continuously monitor and collect payment from its customers. This has resulted in increased collection of older outstandings during FY2019. Also, as committed to ADB, EESL has established a framework for monitoring the various payment securities created in its favour by its customers.	EESL to focus on collections and reduce trade receivables to a. Less than 250 days billable revenue – by March 2020 b. Less than 200 days billable revenue – by March 2021 c. Less than 150 days billable revenue – by March 2022

Risk Type	Risk Rating	Risk Description	Mitigation Measures
2. Funds flow	Low	Timely release of counterpart fund to the project. EESL has been meeting its counterparty funds contribution in a timely manner. It will continue to comply with ADB's requirements regarding the release of funds.	None required
3. Staffing	Low	EESL has a well-organized finance and accounts department headed by Director Commercial and Chief Financial Officer (CFO) which is staffed adequately with the senior positions headed by qualified professionals. EESL has successfully managed the ADB requirements for the existing loan. EESL has been able to complete the audit of its standalone accounts within the statutory time limit of 6 months from the close of the financial year during the past few years.	None required.
4. Accounting Policies and Procedures	Moderate	EESL's auditors have qualified the financial statements and have pointed out certain issues relating to incomplete data regarding capitalization and physical verification of assets, receivables/payables, etc. The auditors have also stated that they are unable to comment on adequacy of EESL's provision for bad and doubtful debts due to inadequate data.	<p>1.EESL's management has stated that it is in the process of reconciling the various details and has confirmed that on completion of this exercise, any difference would be accounted for.</p> <p>2.With regard to provision of bad and doubtful debt, EESL has agreed that it will revise its provisioning policy for bad and doubtful debts based on the credit assessment of its customers and their repayment record. The revised provisioning policy would be formulated by September 2020 and would be implemented by March 2021.</p>

Risk Type	Risk Rating	Risk Description	Mitigation Measures
5. Internal Audit	Low	Internal audit is undertaken by an external chartered accountant appointed by the board of directors. Internal audit report and the action taken report are submitted to the Audit Committee once a year. The statutory auditor has also confirmed that EESL has an adequate internal control system. The internal audit program is considered adequate for now.	None required.
6. External Audit	Low	EESL has a comprehensive audit system with four types of audit (Statutory audit, government audit, secretarial audit and internal audit). The CAG appoints EESL's external auditor and also conducts supplementary audits. Audits are annual and must be concluded within six months of the end of the fiscal year. The audits are done in accordance with the current Indian accounting standards. Immediately after statutory audit, supplementary audit is conducted by CAG. According to the Companies Act, 2013, secretarial audit is also conducted. A practicing Company Secretary appointed as secretarial auditor reviewed the statutory compliance of EESL. EESL has been found to be in compliance with all statutory regulations.	None required.
7. Financial reporting	Substantial	EESL has an integrated ERP system which enables it to generate the required information from the system. As the system is fully integrated, the same information is available for all financial reporting. A detailed budget including a capital expenditure plan is prepared annually and is used for monthly variance analysis. A 5-year business plan has also been prepared and approved. However, there is no formalized reporting formats have been developed for meeting the specific requirement of individual departments. EESL needs to prepare a manual for MIS which will enable management to monitor performance of various activities of the company including projects, timely realization of payments, status of creation and	EESL to prepare a manual for MIS by September 2020

Risk Type	Risk Rating	Risk Description	Mitigation Measures
		<p>maintenance of payment security commitments by customers, etc. and take timely corrective measures.</p> <p>The first audited project financial statements (APFS) was submitted by EESL for previous ADB financed project for FY2018. APFS was submitted after significant delays and needed improvement in order to fully comply with ADB financial management requirements.</p>	<p>ADB FM expert held detailed session with EESL to explain ADB financial management requirements, following which revised APFS was submitted by EESL, which substantially addressed the quality concerns. For this project, a financial management expert, through the attached TA, will support EESL in overall improvement in financial management and ensuring compliance with ADB FM requirements.</p>
8. Information System	Low	EESL has implemented an integrated ERP system consisting of various modules of Finance and Control, Materials Management, Sales & Distribution, Project and Human Capital Management. The ERP package went live in April 2018. EESL has also developed various dashboards for its various businesses.	None required.
Overall Control Risk	Moderate		
Overall Combined Risk	Moderate		

ADB = Asian Development Bank, BoD = Board of Directors, EESL = Energy Efficiency Services Limited, ERP = enterprise resource planning, ESCO = Energy Service Company, CAG = Comptroller & Auditor General, India

VI. Financial Management Action Plan

40. A review of the FM actions stipulated in the earlier loan was first conducted. EESL has complied (with some delay) with all the FM actions stipulated in the earlier loan. A summary of their current status is given in Table 4 below:

Table 4: Current Status of Financial Management Action Plan for the Demand Side Energy Efficiency Sector Project

Action	Responsibility/Re sources	Current Status
Establish a foreign exchange risk management framework with specific policies relating to hedging of both foreign currency and interest rates.	EESL	Complied (approved by the Board of Directors at its meeting on 2 July 2019)
Undertake a legal and commercial audit of its existing and pro forma agreements with urban local bodies (ULBs) and discoms in areas relating to liabilities in the event of termination and force majeure events	EESL	Complied (Opinion obtained from legal counsel on July 24, 2018)
Establish a framework for protection of project assets (insurance) in the event of fire, theft, insurable force majeure events, etc post project commissioning.	EESL	Complied (Framework approved by the Managing Director in January 2019)
Capacity building for adhering to ADB's disbursement, procurement and financial management policies and procedures including managing imprest account.	ADB	Completed – EESL staff attended training programs conducted by ADB
Establish a framework for escrow account (and other securities) monitoring including establishment of escrow accounts, deposit of funds, enforcement of payment terms in event of default, etc. The framework would also monitor government guarantees and letters of credit	EESL	Complied (confirmed by Statutory Auditor vide letter dated 29 September 2018)
Establish a policy on provision for doubtful debt and writing off of irrecoverable debt in accordance with appropriate industry/regulatory standards and guidelines	EESL	Complied
Obtain clarification regarding applicability of International Accounting Standards (IAS) 17 (Lease accounting) on EESL's financial assets.	EESL	Complied
Implement a comprehensive enterprise resource planning (ERP) system including fixed assets management modules	EESL	Complied (Implemented since April 2018)

VII. PROPOSED TIME-BOUND ACTION PLAN

1. Based on the risk assessment and proposed risk mitigation measures, the proposed risk action plan is provided as shown in Table 1 in the executive summary.

Financial Management Assessment Questionnaire

Topic	Response	Remarks												
1. Executing / Implementing Agency	Energy Efficiency Services Limited (EESL)													
1.1 What is the entity's legal status / registration?	Public Limited Company registered under the Companies Act 1956.													
1.2 How much equity (shareholding) is owned by the Government?	<p>Energy Efficiency Service Limited (EESL) was created by the Ministry of Power (MOP) within the Government of India as the implementation arm of the MOP and Bureau of Energy Efficiency (BEE). It positioned to lead the market related action of the National Mission for Enhanced Energy Efficiency (NMEEE). It is a Joint Venture (JV) of four Public Sector Undertakings (PSUs) as given below;</p> <p>NTPC limited Rural Electrification Corporation (REC) Limited Power grid Corporation of India (PGCI) Limited Power Finance Corporation (PFC) Limited</p> <p>As of March 31, 2019, the shareholding pattern of EESL is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Name of Shareholder</th> <th style="text-align: right;">Amount (Rs. in cr.)</th> </tr> </thead> <tbody> <tr> <td>NTPC Ltd</td> <td style="text-align: right;">245.5 cr.</td> </tr> <tr> <td>Power Grid Corporation of India Limited</td> <td style="text-align: right;">37.7 cr.</td> </tr> <tr> <td>Rural Electrification Corporation Limited</td> <td style="text-align: right;">146.5 cr.</td> </tr> <tr> <td>Power Finance Corporation Limited</td> <td style="text-align: right;">245.5 cr.</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">675.2 cr.</td> </tr> </tbody> </table>	Name of Shareholder	Amount (Rs. in cr.)	NTPC Ltd	245.5 cr.	Power Grid Corporation of India Limited	37.7 cr.	Rural Electrification Corporation Limited	146.5 cr.	Power Finance Corporation Limited	245.5 cr.	Total	675.2 cr.	
Name of Shareholder	Amount (Rs. in cr.)													
NTPC Ltd	245.5 cr.													
Power Grid Corporation of India Limited	37.7 cr.													
Rural Electrification Corporation Limited	146.5 cr.													
Power Finance Corporation Limited	245.5 cr.													
Total	675.2 cr.													
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁶	NA													
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes. EESL is currently implementing 2 credit lines from KfW and AFD, one RBL from the World Bank and one loan of \$200 million from ADB.													
1.5 Briefly describe the statutory reporting	The statutory reporting requirements of the company are as per requirement of Companies Act, 2013 and other statutory agencies under													

⁶ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Remarks
requirements for the entity.	Income Tax Act, 1961 and Securities Exchange Board of India Act, 1992.	
1.6 Describe the regulatory or supervisory agency of the entity.	The supervisory agency of EESL is the Ministry of Power (MOP) within the Government of India	
1.7 What is the governing body for the project? Is the governing body for the project independent?	The Board of Directors of EESL is the Governing body of the project. The detailed list of Directors is enclosed as Appendix A	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	A detailed organization structure is enclosed as Appendix B . The organization structure is appropriate for the project as EESL has implemented similar projects in the past including ADB's existing project.	
1.9 Does the entity have a Code of Ethics in place?	Yes; All employees are covered by the conditions of employment indicated in their appointment letter and the guidelines of the Government of India. EESL also has a separate Code of Conduct for its Directors and senior management staff too.	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	Nil	
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including	A detailed funds flow diagram is enclosed as Appendix C .	

Topic	Response	Remarks
<p>a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.</p>		
<p>2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?</p>	<p>Funds will be directly disbursed to implementing agency i.e. EESL and is satisfactory as seen in existing loan of ADB.</p>	
<p>2.3 Are the disbursement methods appropriate?</p>	<p>Yes</p>	
<p>2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?</p>	<p>Nil</p>	
<p>2.5 In which bank will the Imprest Account (if applicable) be established?</p>	<p>The advance account for the existing loan was opened in HDFC Bank. It is expected that the advance account for the proposed loan would also be in the same Bank.</p>	
<p>2.6 Is the bank in which the imprest account is established capable of –</p> <ul style="list-style-type: none"> • Executing foreign and 	<p>Yes, HDFC bank is capable of handling all type of transactions</p>	

Topic	Response	Remarks
<p>local currency transactions?</p> <ul style="list-style-type: none"> • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 		
<p>2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?</p>	<p>Based on the experience in the existing loan, no ceiling for statement of expenditure (SOE) is required.</p>	
<p>2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?</p>	<p>Yes. EESL has successfully managed the existing ADB loan of \$200 million.</p>	
<p>2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which</p>	<p>Yes</p>	

Topic	Response	Remarks
would support the establishment of a ceiling on the use of the SOE procedure.		
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Yes, EESL is exposed to foreign exchange risk due to its borrowings from KfW, AFD, ADB and the World Bank. With a view to manage this risk, EESL has formulated a forex policy in the line with one of its promoter company, which has been approved by the Board of Directors of EESL. This will enable EESL to manage its forex risk in future.	
2.11 How are the counterpart funds accessed?	Counterpart funds would be raised through equity and domestic debt.	
2.12 How are payments made from the counterpart funds?	Payments are made to various contractors/service providers from counterpart funds through EESL's operational Bank accounts but are separately tracked for purpose of inclusion in project cost.	
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	NA	

Topic	Response	Remarks
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	A detailed organization chart for Finance and accounts department is enclosed as Appendix D	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff will be assigned for the project.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key	The project Finance & Accounts team is headed by Director (Commercial)/Chief Financial Officer who is assisted by an Assistant General Manager Finance (Borrowings & Project Payments) as also an Assistant Manager (International financing). All of them have professional accounting qualification.	

Topic	Response	Remarks
existing accounting staff.		
3.4 Is the project finance and accounting function staffed adequately?	As of now staff is adequate.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes, all the staff handling the project are professional qualifications like Chartered Accountant/Cost accountant/MBA.	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes; project finance and accounts staff underwent training in ADB procedures as part of existing ADB loan.	
3.7 What is the duration of the contract with the project finance and accounting staff?	The project finance staff are permanent employees of EESL.	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	NA	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience.	NA	

Topic	Response	Remarks
Attach job descriptions.		
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes; the same arrangements of staffing will continue as in existing ADB loan.	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	The turnover of finance and accounts staff is negligible.	
3.12 What is training policy for the finance and accounting staff?	EESL generally recruits experienced staff. EESL provides the formal induction and in-depth orientation to the newly recruited staff and also provide training in live working environment. Further, EESL regularly organize domestic and international trainings/ study tours for the staff.	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Not available.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of	The company have a proper accounting system in place. The financial statements of the Company that give a true and fair view of the financial position, financial performance and cash flows of the Company, have been prepared in accordance with the Indian Accounting Standards to comply with the Accounting Standards notified under Section 133 of the Companies Act, 2013. The financial statements have been prepared on accrual basis under the historical cost convention. The project will use the entity accounting system.	

Topic	Response	Remarks
<p>expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?</p>		
<p>4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?</p>	<p>There is a proper internal control system accordingly, every transaction has been verified & authorized by head of respective department. EESL follows a maker and checker policy for approval of transactions.</p>	
<p>4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.</p>	<p>Yes. The company would use the same chart of accounts which it uses for ADB's existing loan.</p>	
<p>4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?</p>	<p>Yes</p>	
<p>4.5 Are the General Ledger and subsidiary ledgers</p>	<p>General Ledger and the Subsidiary Ledgers and Cash Book are reconciled regularly.</p>	

Topic	Response	Remarks
reconciled monthly? Are actions taken to resolve reconciliation differences?		
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	<p>As per sec 129 of companies act 2013 the company has to preserve the books of accounts for a period not less than 8 Financial years immediately preceding the year. The period may be longer if the company is subject to investigation.</p> <p>Further, as per sec 128 of the companies act 2013 every company shall prepare and keep at its registered office books of accounts & others relevant books & papers and financial statement of every year.</p> <p>Further, books are also kept in electronic mode through an accounting software, which can be access by the authorized users.</p>	
4.7 Describe any previous audit findings that have not been addressed.	<p>The company's statutory auditors, KK Soni & Co., have issued a qualified report for FY2019. Their major observations are:</p> <ol style="list-style-type: none"> a. The company is still compiling certain data regarding amounts billable, receivable and payable from various customers under its Energy Savings Company (ESCO) model, verification of physical inventory and assets under this scheme and otherwise, and assets capitalized and assets against which revenue is booked. Consequently, the auditors have indicated that they are unable to comment on the impact which 	

Topic	Response	Remarks
	<p>the above may have on Fixed assets, revenue recognition, etc.</p> <p>b. Trade receivables of Rs 604 crores are more than 365 days due (out of total trade receivables of Rs 1831 crores). The company has represented that as a significant portion of its revenues is from government controlled agencies, the risks attached to such receivable are insignificant. The company has provided for doubtful debts only for an amount of Rs 1.96 crores as it is confident to collect even overdue amounts based on historical behavior. Consequently, the auditors have indicated that they are unable to quantify the impact due to any possible allowance on doubtful debt.</p>	
Segregation of Duties		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	All accounting & financial functions are properly segregated between different persons of the units.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	<p>Yes,</p> <p>EESL has setup different departments for each different kind of works and maintained the gap between front and back office.</p> <p>Purchase/Contracts department receive the requirements from all the users across EESL.</p> <p>Contracts/Purchase Department procures the goods as per requisition and send to Store for verification, storage and further issuance to users.</p> <p>Finance department make the payments for goods/services procured in receiving of approval</p>	

Topic	Response	Remarks
	for procurement, quality and quantity certification from store and valid invoices.	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes. For each Financial Year budget is prepared for activities to be performed during the next financial year to attain the objectives in term of Financial, qualitative as well as quantitative. The budget (capital & revenue) is approved by the Board of Directors.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, Further to Point 4.10, all the target set are monitored throughout the Financial year and periodic review is also done/conducted. The deviation from budgeted/targeted performance to actual performance in terms of revenues, expenditures and physical target is assessed and reason thereof is analysed. Further, appropriate actions are taken to remove the bottlenecks.	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes Refer point no 4.11	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Approvals for variations are required in advance.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	All variations from budget need approval of the Managing Director.	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Capital budget is prepared by Project appraisal team & revenue budget is prepared by finance team. The same is monitored by director Commercial /managing director. The finance department in consultation with all Business Unit heads reviews the budget once a year and the same is presented to the Board of Directors for	

Topic	Response	Remarks
	approval. The budget is monitored by the Managing Director every month.	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Budget preparation is explained in 4.15. Also, every month a review meeting is organized by Managing Director, where all business unit heads along with finance are present, accordingly every Business Unit Head provide their status on the progress of project which are current going on or future projects which are under preparation.	
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of</p>	<p>Yes. The project plans and budgets are prepared based on feedback from Business heads and are based on valid assumptions.</p> <p>No significant mid year variation is said to have occurred.</p> <p>No. Counterpart funding has been adequately provided in the earlier project.</p>	

Topic	Response	Remarks
major heads over the last 3 years? Is there a consistent trend either way?		
Payments		
<p>4.18 Do invoice-processing procedures require:</p> <p>(i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?</p> <p>(ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?</p> <p>(iii) Comparison of invoice quantities with those indicated on the receiving reports?</p> <p>(iv) Checking the accuracy of calculations?</p> <p>(v) Checking authenticity of invoices and supporting documents?</p>	<p>Yes, the same is provided by respective project team.</p> <p>Yes, Payment is processed only after all terms & condition prescribed in LoA have been satisfied.</p> <p>Yes, Quantity, rate/price, taxes, date, location, type of invoice (Retail/Tax) all are verified during the process of payment.</p> <p>Yes on the Basis of Purchase order/Letter of Award (LoA)</p> <p>Yes, Invoice should be original & verified by site engineer in charge of respective location.</p>	
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for	Yes, all original invoices are kept with accounting voucher for vouching/ verification during the audit. Further, one additional copy of all invoices has been kept in a separate file for record.	

Topic	Response	Remarks
account code assignment?		
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes, whenever there is new employee join or resign, office order for the same is circulated vide email from HR department of EESL, accordingly the same is consider during the preparation of payroll. Further, attendance of every employee is maintained in real time software which is verified & provide by HR department.	
Policies And Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual at entity level and also at project level.	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	As per Government of India notification under the Companies Act, 2013, issued in consultation with National Advisory Committee on Accounting Standards, and as recommended by the Institute of Chartered Accountants of India, all companies need to follow the Ind-AS (Indian accounting standard). Accordingly EESL and auditor(s) comply with the Accounting Standards in the manner specified in these rules.	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, there are defined accounting policies for every type of project	
4.24 Is the accounting policy and procedure manual updated	Yes, at the end of every financial reporting period and change in the accounting policy and procedure manual, and impact due to such changes are reported in the Annual Report for that Financial Year.	

Topic	Response	Remarks
regularly and for the project activities?		
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes, only the Board of Directors is authorized to alter/introduce any new accounting policy.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, please refer notes to accounts of annual report FY2019.	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes, in compliance of Accounting Standard – 18 on “Related Party Disclosure” issued by the ICAI, the details pertaining to related party are disclosure as per the provisions described in the AS with the objective to maintain greater transparency of related party’s relationship & transactions.	
4.28 Are manuals distributed to appropriate personnel?	Yes	
4.29 Describe how compliance with policies and procedures are verified and monitored.	Every transaction or decision related to accounting & financial matters have been taken by the appropriate authority. Further, compliance with the policies and procedures are verified through Internal audit and statutory audit.	
Cash and Bank		
4.30 Indicate names and positions of authorized signatories for	Mr. S Gopal (Director Commercial) (also CFO) Mr. Mohit Khatri (AGM Finance) Mr. Sameer Agarwal (AGM Finance) Mr. Deepak Garg (AGM Finance)	

Topic	Response	Remarks
bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.		
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes, All the banking transaction are recorded in books on daily basis and reconciled with banks generally on next day on receipt/downloading of the Bank statements.	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	There is a commercial department established for dealing the following works; 1. Project invoicing and pass the entries. 2. Follow up project payments. 3. Recovery and accounting of Project payment. 4. MIS on project payments with exception report 5. Project related taxation issues. 6. Submission of replies/information for advance tax, assessment related to project required by Auditor, CAG, and Income tax. 7. Registration of VAT, return, assessment and reconciliation. 8. Entries of collection received against ESCO Model as per invoicing. 9. Any other work assigned by Director (Finance).	
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	BRS prepared on monthly basis. No cash is maintained in EESL. All the payments are made through bank.	
4.34 Are all reconciling items approved and recorded?	Yes, Recorded after approval of competent authority.	
4.35 Are all unusual items on the	Yes.	

Topic	Response	Remarks
bank reconciliation reviewed and approved by a responsible official?		
4.36 Are there any persistent/non-moving reconciling items?	No.	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes, all unused cheques, USB keys and passwords are handed over to respective dealing officials and kept in safe key locks.	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, EESL does not maintain cash balances at any of its offices.	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Two level of security and safeguard, login/access passwords are provided to dealing officers and the USB keys/ transaction passwords are provided to very senior officials only, which are dealing the payments.	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	All the EESL Office Assets viz. Furniture, Fittings, Desktops and laptops are covered under warranty and maintenance and insured. Fire safety measures are taken. The office building are mainly on lease/rent. The projects assets are owned by EESL till the full repayments by beneficiary.	
4.41 Does the entity maintain a Fixed Assets	A proper fixed assets register is maintained, which record the detail of all ownership assets like instruments, mobile, printers, laptops etc. the entry	

Topic	Response	Remarks
Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	in the same is made at the time purchase of any instrument/equipment.	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and	Assets are disposed through bidding process and are highest bidder selected	

Topic	Response	Remarks
recorded? Are steps immediately taken to locate lost, or repair broken assets?		
4.46 Are assets sufficiently covered by insurance policies?	EESL own assets are covered under insurance, projects assets under implementation are covered for insurance by the Contractors. EESL has now approved a framework for insurance coverage of project assets which have been commissioned. This is currently under implementation.	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Tracked through fixed assets register	
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	Other than Registered Office and corporate office, EESL operating its business from various regional offices all over India. In addition EESL has other small site/camp offices under regional offices..	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	The project team comprises one regional project manager with engineers. Regional project manager directly reports to the programme manager of EESL at corporate office. However, with respect to accounting and financial management centralized system is followed i.e. all accounting & financial transactions of such offices are recorded at head office only.	

Topic	Response	Remarks
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Project related rules will be established in due course. Considering EESL's experience in managing ADB's existing loan, it is considered satisfactory. Separate data/financial information and reports are prepared for each project i.e. Revenues, Expenditure, value and depreciated value of assets etc.	
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Yes	
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Centralized accounting system followed.	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the	N.A.	

Topic	Response	Remarks
results of the assessment of the financial management capacity of the administrator of such sub-accounts.		
Contract Management and Accounting		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Yes.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
Other		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees,	EESL has setup Vigilance Department to prevent and act against fraud, corruption, waste and misuse of project resources and accordingly take action against the employees, beneficiaries and other recipients against them if any suspect fraud, waste or misuse of project resources or property. Chief Vigilance officer (CVO) heads the vigilance department.	

Topic	Response	Remarks
beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?		
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	Yes, as per sec 138 of companies act 2013	
5.2 What are the qualifications and experience of the IA staff?	As per companies act internal auditor shall be either Chartered accountant or Cost Accountant or such other professional as may be decided by the board. Internal auditor may an individual or a firm. In EESL practicing Chartered Accountants firm namely "M/s. Jain & Malhotra & Associates" has been appointed as Internal Auditor. EESL also has a AGM (Finance) who coordinates the work of the Internal Auditor	
5.3 To whom does the head of the internal audit report?	While the AGM (Finance – Internal Audit) reports to the Director (Commercial)/Chief Financial Officer (CFO), the Internal Auditor reports to the Audit Committee	
5.4 Will the internal audit department include the project in its annual work program?	As the internal audit covers the entire company activities, the project would also be covered in the program	
5.5 Are actions taken on the internal audit findings?	Yes	
5.6 What is the scope of the internal audit program? How was it developed?	The audit committee of the company or the board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit. Board report also contains the details in respect of adequacy of internal financial control.	
5.7 Is the IA department independent?	While the internal audit department reports to the CFO, the Chartered Accountancy firm which conducts IA in EESL is independent and reports to the Audit Committee	
5.8 Do they perform pre-audit of transactions?	No	

Topic	Response	Remarks
5.9 Who approves the internal audit program?	The Board of Directors approves the internal audit program	
5.10 What standards guide the internal audit program?	Standards of auditing issued by ICAI	
5.11 How are audit deficiencies tracked?	The audit deficiencies are tracked through an action taken report, which the departments concerned monitor. This is in turn tracked by the Internal Audit department.	
5.12 How long have the internal audit staff members been with the organization?	While the staff of the IA department are permanent staff of the company, the CA firm conducting internal audit is appointed from time to time.	
5.13 Does any of the internal audit staff have an IT background?	No, but they are trained in IT.	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	On an annual basis.	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Information not available.	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	No	
6. External Audit – entity level		
6.1 Is the entity financial	Yes, Financial statements are audited on yearly basis by an independent auditor, appointed by	

Topic	Response	Remarks
statement audited regularly by an independent auditor? Who is the auditor?	Controller & Auditor General of India (CAG) within 180 days from the commencement of financial year and will hold the office till the conclusion of the next annual general meeting. Currently M/s. KK Soni & Co. have been appointed as Statutory auditor.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. There have no delays in the audit of the entity. For FY2019, audit report has been issued (for Standalone audit of the company) on 27 May 2019	
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	The Central Government shall notify these standards in consultation with National Financial Reporting Authority. The government may also notify that auditors' report shall include a statement on such matters as notified. Further, while auditing, every auditor shall comply with the Indian Auditing Standards also. Accordingly, EESLs auditor also comply with the Accounting Standards and Auditing Standard in the manner specified in these rules. The auditor prepares the audit report in accordance with the Company Auditor's Report Order (CARO). CARO requires an auditor to report on various aspects of the company, such as fixed assets, inventories, internal audit standards, internal controls, statutory dues, among others.	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Please refer to 4.7	
6.5 Does the external auditor meet with the audit committee without the presence of management?	No. During the audit committee meeting for review of audited accounts, the Managing Director and Director (Finance) are usually present as Invitees.	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit	No	

Topic	Response	Remarks
engagements, relative to the value of audit services?		
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, as EESL is an existing borrower of ADB.	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.	
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Projects financial statements for submission to ADB would be audited by a different auditor (ie. Other than the Statutory auditor).	
6.11 Are there any recommendations made by the auditors in prior project audit	No, there are no such recommendations related to project financial statements provided by auditors during audit.	

Topic	Response	Remarks
reports or management letters that have not yet been implemented?		
6.12 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?	Yes, as the CAG conducts a supplementary audit, the project may also be reviewed as part of its audit.	
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	The terms of reference for auditors of this project financial statements would also be on similar lines of the one issued for the existing ADB loan. The scope of work would be based on the guidelines issued by DEA, GOI.	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	NA	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	The existing project auditor has sufficient knowledge and understanding of ADB's guidelines and procedures.	
6.16 Are there any recommendations made by the	No	

Topic	Response	Remarks
auditors in prior audit reports or management letters that have not yet been implemented?		
<p>[For second or subsequent projects]</p> <p>6.17 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?</p>	<p>As per ADB's review of the APFS for the existing loan, certain observations have been made on the APFS and the EA has been advised to revise the APFS in this regard. The EA has also been advised to note certain other recommendations for preparing the APFS for the next financial year.</p>	
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	<p>Yes, Quarterly financial statements are submitted to the Board for review. The statutory auditors do a limited review of half yearly financial statements before being approved by the Board for submission to the Stock exchange as required under the listing agreements for the bond issue of EESL. Annual accounts are audited by the Statutory auditor and approved by the Shareholders. EESL also prepares its budget on an annual basis.</p>	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	<p>Annual project financial statements are prepared for the existing ADB project and will be prepared for the proposed project too.</p>	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared	<p>Yes, the financial statements are prepared in a timely manner for use of the management. The detailed frequency of preparation has been indicated in Para 7.1</p>	

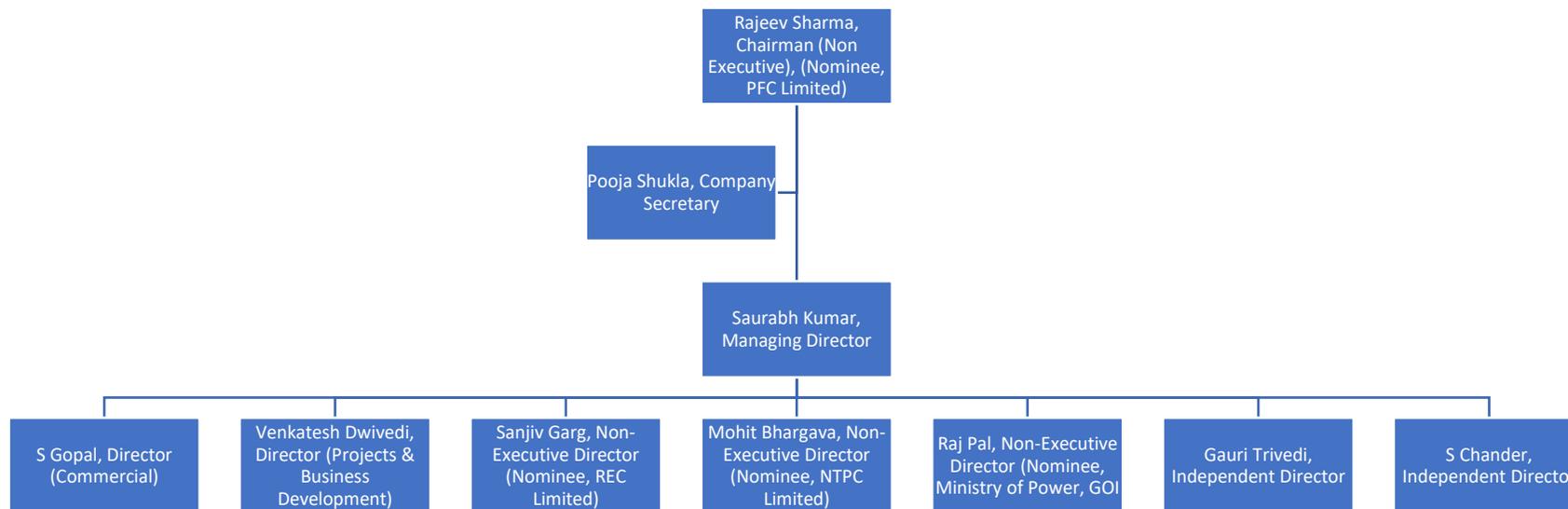
Topic	Response	Remarks
in a timely fashion so as to be useful to management for decision making?		
7.4 Does the entity reporting system need to be adapted for project reporting?	Yes; necessary changes have already been done for existing project	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Financial reporting responsibilities for existing ADB project will be continued for this project also	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	EESL has implemented an integrated ERP system including the following modules – Finance & Control (FICO), Materials Management (MM), Sales & Distribution (S&D), Project System (PS) and Human Capital Management (HCM). With the implementation of the ERP, financial reports including Profit & Loss account and Balance sheet are being prepared automatically. Certain journal entries however are passed manually.	

Topic	Response	Remarks
7.9 Does the financial 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 data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	EESL's financial system has the capacity to link the financial information with the project's physical progress as the ERP is fully integrated.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes, EESL has implemented projects funded by KfW, AFD and the World Bank.	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes	
8.2 If computerized, is the software off-the-shelf, or customized?	EESL has implemented an integrated ERP based on SAP. It has the following modules – Finance & Control (FICO), Materials Management (MM), Sales & Distribution (S&D), Project System (PS) and Human Capital Management (HCM).	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	As indicated earlier, EESL has implemented an integrated ERP linking all departments	

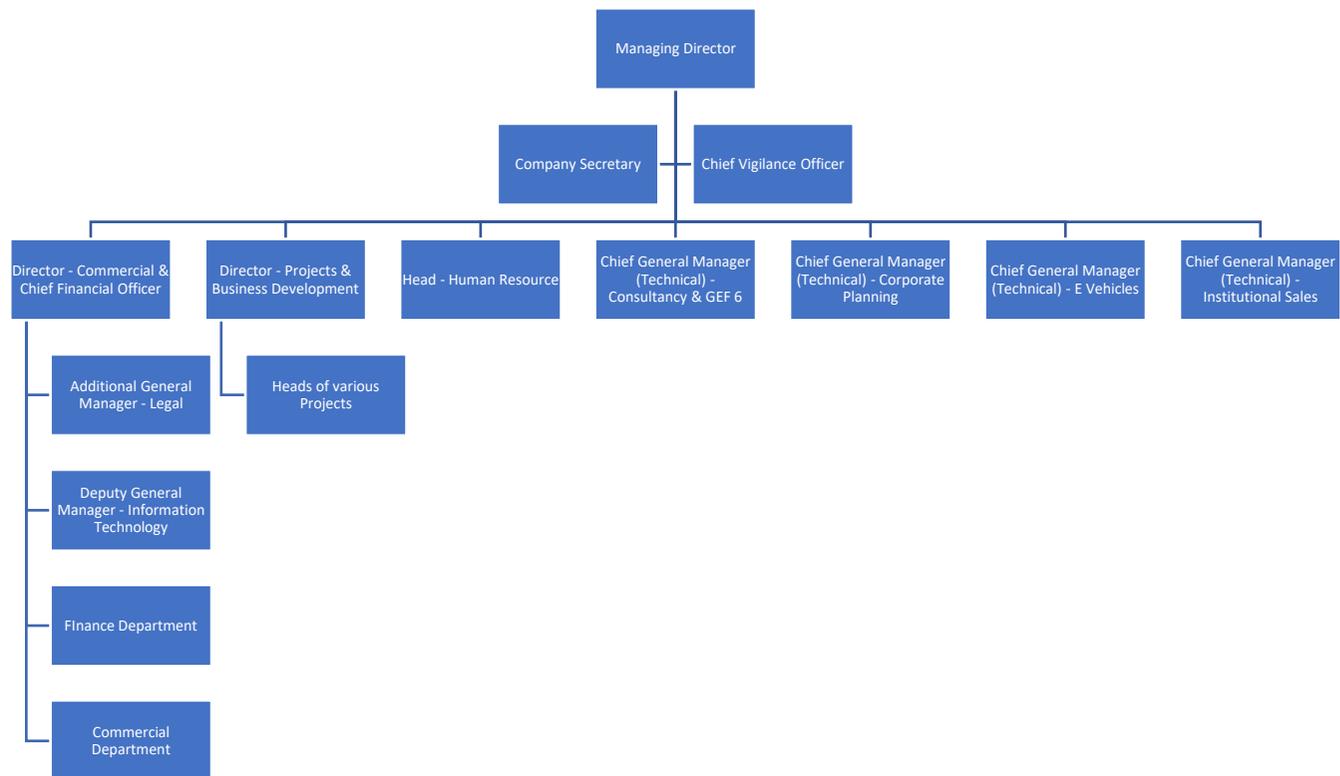
Topic	Response	Remarks
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Project financial data is integrated with entity financial data through appropriate additions to the system	
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	ERP generates all financial statements subject to passing of certain journal vouchers manually	
8.6 Can the system automatically produce the necessary project financial reports?	Yes	
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	
8.9 Are there back-up procedures in place?	Yes. EESL has set up adequate back up procedures for the data	

Topic	Response	Remarks
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	EESL has a mix of off site storage, online storage, to ensure data is safe from any mishap like fire, earthquake, etc.	

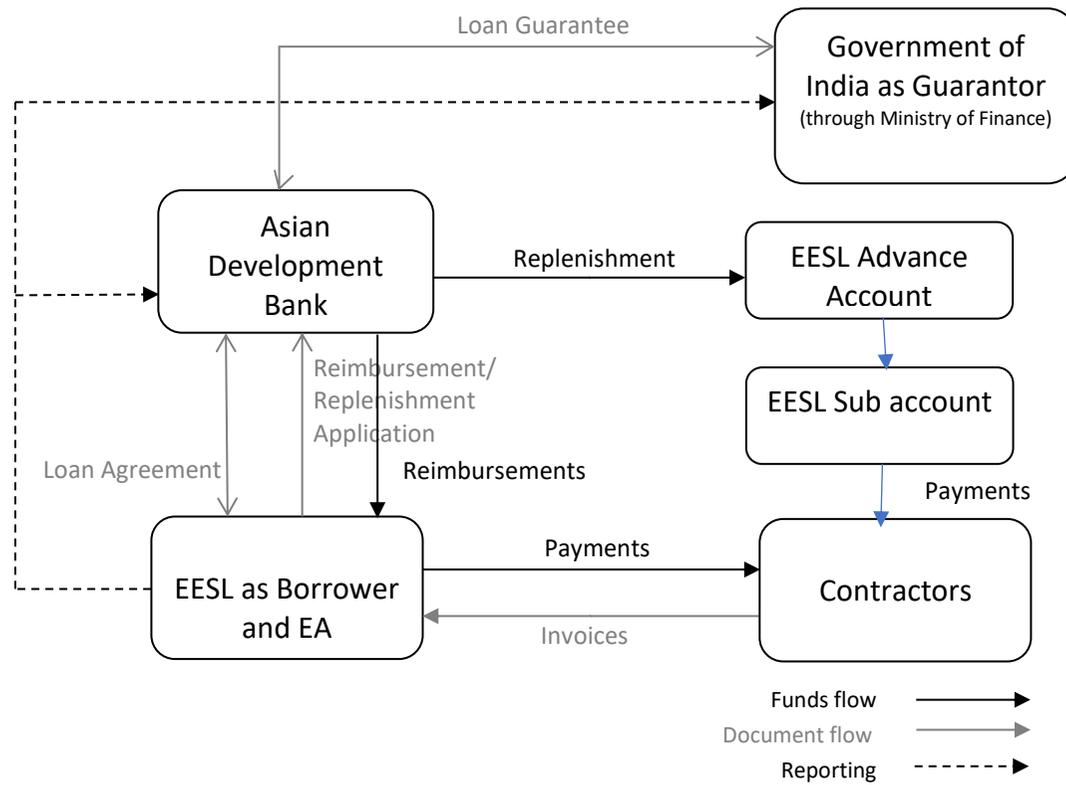
Energy Efficiency Services Limited Board of Directors



Energy Efficiency Services Limited Organisation Chart



Fund Flow Diagram



EA = executing agency, EESL = Energy Efficiency Services Limited.
 Source: Asian Development Bank.

Energy Efficiency Services Limited Finance Department - Organisation Chart

