

SCHEDULE -4 Significant Accounting Policies and Notes forming part of Accounts

4.1 Significant Accounting Policies

a) *Basis of Preparation of Financial Statements*

The accompanying financial statements have been prepared under the historical cost convention on accrual basis in accordance with generally accepted accounting principles in India.

b) *Recognition of Income and Expenses*

Grant is recognized at the point of actual receipt by the Society.

c) *Fixed Assets*

Fixed assets are stated at cost of acquisition less accumulated depreciation.

d) *Depreciation*

Depreciation on fixed assets has been provided on written down value method at the rates prescribed in the Income-tax Act, 1961. Depreciation is charged for full year for additions to fixed assets irrespective of the date of acquisition.

e) *Investments*

Investments are stated at cost.

4.2 Notes Forming Part of Accounts

The books of account and vouchers of District Project Office, Jagatsinghpur pertaining to period from 01.04.2003 to 03.12.2003 have been seized by the state vigilance department. Disputed amount during that period to the extent of Rs. 64, 54,802 has been shown in Suspense Account pending final disposal.

In terms of our attached report of even date.

For **Orissa Primary Education**
Programme Authority

For **NANDA RANJAN & JENA**
Chartered Accountants

State Project Director

CA P K NANDA, Partner
Memb. No.058439

Management Letter

To
The State Project Director,
Orissa Primary Education Programme Authority

As appointed vide your letter No. 3054/fin/07 dated 25.04.2007 we would like to inform you that we have consolidated the accounts of Sarva Sikshya Abhiyan Programme covering all the 30 (*Thirty*) District Project Offices of the State of Orissa. We have audited the Project Accounts and Statement of Expenditure of Nayagarh, Khurda, Angul, Dhenkanal, Jagatsinghpur, Keonjhar, Sonapur, Nuapada, Boudh and Kandhamal districts and the State Project Office. Audit of other 20 (*Twenty*) DPO(s) have been conducted by other joint auditors. We have considered their comments and observations on the accounting records, systems and controls and deficiencies and areas of weakness therein. The summary of those observations and our recommendation is as below:

Observations

I. Accounting Records

- i. In some DPO(s), Bank Reconciliation is not done monthly/annually in respect of some bank accounts. We were explained that steps have been initiated to prepare all pending BRS up to 31.03.2007 and monthly BRS thereafter of all accounts.
- ii. On sample survey of School level accounts it reveals that the books of account and other subsidiary records maintained are not up to the mark. Hence management should have to take appropriate steps to ensure proper maintenance of books of account at the school level.
- iii. In respect of VEC level construction work it reveals that the system of maintenance of records and utilization of funds are very weak and no satisfactory steps have been taken in general to settle the advance, Utilisation of the funds and closing of the case records.
- iv. In respect of grants released for Civil Work, School Improvement Grant (SIG), Teaching Learning Material (TLM), Repair Maintenance utilization certificate have not been collected on a regular basis, which needs close monitoring by the management. Further the amount released towards undertaking of civil works have been booked to expenditure on payment basis.
- v. The SIS/DPO is implementing various training programme and survey related task through BRCs, CRCs and DIs and huge amount of advances are lying unadjusted since long. Further the BRC, CRC and DI are implementing programme like contractor. On our visit it reveals that in some cases BRCs, CRCs are not maintaining the records properly and there is absence of control on the utilization of the same.
- vi. DPOs have made provision for royalty with anticipated figure without any proper back information such as a claim or confirmation from the appropriate authority.
- vii. Fixed asset register are not maintained as per FMP manual. No physical verification of assets have been made by the management.

II. Systems and Controls

- i. The utilization certificate in respect of grants released for Civil Work, School Improvement Grant (SIG), Teaching Learning Material (TLM), Repair Maintenance Grant have not been collected on a regular basis which needs close monitoring by the management.
- ii. In some of the cases, there has been delay in payment of statutory dues like GPF, EPF, Income Tax and Professional Tax. In some cases, tax has not been deducted at source from some payments.
- iii. In some cases, splitting of purchase orders have been made to keep the same within the delegated financial powers have been noticed, which defeats the very purpose of delegation.
- iv. Assets of the all programmes including cash in hand have not been insured. There is no fidelity insurance cover for staff handling money.
- v. Huge amount of advances have been pending on various parties and no satisfactory action have so far been initiated by the authority across the state for squaring off the same. Further staff advances have been granted without settlement of previous advances(s).
- vi. Even though there is internal audit system in place, the suggestions, comments etc. reported by the internal auditors are not complied in time. In the absence of the same the effectiveness on the internal audit is defeated.
- vii. In respect of Computerized of accounts still there are Districts such as Keonjhar, Angul etc. where accounts are not computerized properly and there is still vacancy in the finance section of some districts.
- viii. In respect of transfer of funds to sub-district level such as VEC accounts etc. electronically practically this is far from reality. In the districts such as in the districts Khurda, where funds are given to AXIS BANK through a cheque along with the list of the beneficiaries and amount withdrawn by the Banker from its own account and deposits the cash in to number of accounts given for transfer and the deposit slips are submitted to DPO. This is not the object of E-Transfer. Further the risk associated with carrying and depositing of cash in a number of accounts. Chances of errors can not be ignored under such situation.

Recommendation

1. There is an urgent need to formulate modality for collection of utilization certificates on regular basis. There is also a need to discourage disbursement of subsequent installments before collecting utilization certificates for the previous advance(s). A register may be maintained for UC due, received and collected.
2. The VECs/BRCs/CRCs are to be imparted with training on necessity & manner of Maintenance of Books of Account.
3. Monitoring of all advances needs to be improved. Before disbursing fresh advance, settlement of previous advances(s) should be insisted
4. Fixed assets needs to be verified and valued so as make proper records at each district level.
5. Only year-end statutory audit is being conducted. Considering the amount of fund involved, voluminous transactions and many executing agencies (*from whom most of the basic information are collected for the purpose of accounting*) and inherent limitations of statutory audit to conduct a

detailed check, it is advisable to develop certain mechanism to exercise regular monitoring & supervision on the DPO(s).

6. Management should go through the Comments, Observations and irregularities reported by the internal auditors and take appropriate measures on the same.
7. Each and every bank account should be reconciled and all the differences should be squared off at once. A number of idle bank accounts which needs to be closed.
8. Books of accounts with all vouchers and sub ledgers are required to maintain and the same needs to be certified by the internal/statutory auditors.
9. Individual construction accounts should be checked, physically verified and settled.
10. Appropriate man power should be engaged in all the districts especially in finance section as well as at block level to look after the account of the VEC.
11. Compliance to all legal matters such as timely filling of EPF return, Professional Tax, TDS and E-TDS etc. needs to made and specific training and guidelines should be issued from SIS Level.
12. OPEPA should file Income Tax Return and obtain 12A registration under Income Tax Act.
13. Adequate risk insurance for assets and fidelity insurance for staff handling money need be taken.

Thanking you,

Yours faithfully,

For NANDA RANJAN & JENA.
Chartered Accountants

CA. P K Nanda
Partner

AUDITOR'S REPORT

We have audited the attached Balance Sheet relating to the **SSA & NPEGEL and KGVB Programmes** implemented by **Orissa Primary Education Programme Authority (OPEPA)**, Sikshya Soudh, Unit-V, Bhubaneswar as at 31st March, 2007 and the annexed Income and Expenditure Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (ii) In our opinion, proper books of account have been kept by the Society so far as appears from our examination of those books. Proper returns adequate for the purpose of our audit have been received from the District Project Office(s) not visited by us. Reports of the District Project Office auditors have been forwarded to us and the same have been dealt with in preparing our report;
- (iii) The Balance Sheet and Income and Expenditure Account dealt with by this report are in agreement with the books of account;
- (iv) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes on account give a true and fair view :
 - (a) in the case of the Balance Sheet, of the state of affairs of the Society relating to the Project as at 31st March, 2007, and
 - (b) In the case of the Income and Expenditure Account, of the excess of Expenditure over income for the year ended on that date.
- (v) Audit was carried out as per the TOR as laid down in the SSA Manual on Financial Management & Procurement.
- (vi) The programme entities are carried out the financial management function as per requirement laid down in the manual.
- (vii) **Procurement Certificate:**

“This is to certify that we have gone through the procurement procedure used for the State and based on the audit of the records for the year 2006-07 for the SIS, OPEPA and inputs from the district audit reports, we are satisfied that the procurement procedure prescribed in the Manual on Financial management & Procurement under SSA in generally followed.”

For NANDA RANJAN & JENA.
Chartered Accountants

January 24th, 2008
Bhubaneswar

CA. P K Nanda, Partner
Memb. No.058439