



**GEF**

**GEF/WORLD BANK/UNDP  
Sustainable Urban Transport Project, India**

**Financial Management Manual (Final)**

October 2009

**MINISTRY OF URBAN DEVELOPMENT  
Government of India**

Project Preparatory Work Consultant: **LEA Associates South Asia Pvt. Ltd., New Delhi**

**Sustainable Urban Transport Project, India**

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**LIST OF ABBREVIATIONS**

CA	Chartered Accountant
CAAA	Controller of Aid, Accounts and Audit
C&AG	Comptroller & Auditor General
CSMC	Central Sanctioning and Monitoring Committee
DEA	Department of Economic Affairs
DPR	Detailed Project Report
FM	Financial Management
FMM	Financial Management Manual
GEF	Global Environment Facility
Gol	Government of India
IBRD	International Bank for Reconstruction and Development
IUF	Interim Un-audited Financial Report
IUT	Institute of Urban Transport
JnNURM	Jawaharlal Nehru National Urban Renewal Mission
MD	Managing Director
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MOUD	Ministry of Urban Development
NPD	National Project Director
NPM	National Project Manager
NUTP	National Urban Transport Policy
PAD	Project Appraisal Document
PFS	Project Financial Statements
PIA	Project Implementing Agency
PIU	Project Implementation Unit
PM	Project Manager
PMU	Project Management Unit

SLNA	State Level Nodal Agency
SUTP	Sustainable Urban Transport Project
TTL	Task Team Leader
TOR	Terms Of Reference
ULB	Urban Local Body
UT	Urban Transport
WB	World Bank
UNDP	United Nations Development Programme

# *Chapter 1. Background*

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## 1.1 INTRODUCTION

The Government of India (GOI) has applied to the Global Environment Facility (GEF) and International Bank for Reconstruction and Development (IBRD) to implement Sustainable Urban Transport Project (SUTP) in India to ensure that environmental considerations are taken into account in the application of the National Urban Transport Policy (NUTP) and to achieve a paradigm shift in India's urban transport systems in favour of sustainable development.

The objectives of the SUTP are: i) to strengthen capacity of GoI, and participating states and cities in planning, financing, operating and managing sustainable urban transport systems; and ii) to assist states and cities in preparing and implementing demonstration "Green Transport" projects (GT projects). The project is to be implemented over a period of four years, starting from 2010 with the support of World Bank and UNDP.

Ministry of Urban Development (MOUD), GoI has been designated as the nodal agency to implement the SUTP on behalf of the GOI. A Project Management Unit (PMU) has been set up under the overall umbrella of the Urban Transport (UT) Division of the MOUD, Government of India.

The SUTP project will support the following components with funding from the GoI, World Bank and GEF:

- **Component 1A:** National Capacity Development Initiatives
- **Component 1B:** Capacity Development Assistance for SUTP Cities
- **Component 2:** City Demonstration Projects
- **Component 3:** Project Management: This component will support the PMU at the national level to implement the national components (Component 1A and 1B) as well as support and supervise the pilot cities component (Component 2).

To distinguish GEF grant from the IBRD loan, the World Bank will support the SUTP through two parallel operations:

There will be two projects (IBRD and GEF funded) and the cities covered in the two projects are as follows:

The Cities covered under the SUTP GEF project:

S.No	City Name	Status
1	Jalandhar	Municipal Corporation
2	Pune	Municipal Corporation
3	Pimpri Chinchwad	Municipal Corporation
4	Naya Raipur	Development authority
5	Indore	Company
6	Mysore	State Road Transport Corporation

The Cities covered under the SUTP IBRD project:

S.No	City Name	Status
1	Jalandhar	Municipal Corporation
2	Pune	Municipal Corporation
3	Pimpri Chinchwad	Municipal Corporation
4	Naya Raipur	Development authority

## 1.2 NEED FOR FINANCIAL MANAGEMENT MANUAL

In order to enable consistency and quality in managing financial aspects of the project, this Financial Management Manual (FMM) outlines operating procedures relating to financial management at the national (PMU) and the city level (PIU) implementing agencies. It includes an overview of institutional arrangements for budgeting, funds flow, accounting, auditing and reporting procedures.

To ensure consistency and quality in the financial management function across the different Project Implementing Agencies (PIAs), the following minimum procedures have been included in the manual, as mentioned in Financial Management (FM) Annex 7 of Project Appraisal Document (PAD)-.

1. Maintenance of separate accounts of the project at the PIAs covering all sources and uses of funds, expenditures and flows relating to the sub-projects which receive any funding through GEF or IBRD.
2. Submission of accounts (including IUFRRs) of all PIAs to a centralized internal audit.

3. Receipt by the Bank of annual audited accounts which have been reconciled with the Interim Unaudited Financial Reports (IUFRs), which are to be used as a basis for disbursement.
4. Presence of Accountants (with qualifications and experience acceptable to the Bank) at all the PIAs.

### **1.3 CONTENTS OF THE MANUAL**

The manual has been divided into chapters which cover the following topic:

Chapter 1- Background

Chapter 2- Process of Budgeting

Chapter 3- Accounting

Chapter 4- Audit Procedures

Chapter 5- Implementation of Financial Management Arrangements

Chapter 6- Flow of Funds and Disbursement

The manual also has a list of appendices that include list of reports to be prepared by the PIAs, reporting and budgeting formats and terms of reference (ToRs) for Internal and Statutory Auditors.



## Chapter 2. Process of Budgeting

There will be two projects funded under IBRD loan and GEF grant respectively. The cities covered in the two projects are as follows:

Cities covered under the SUTP GEF project:

S.No	City Name	Status
1	Jalandhar	Municipal Corporation
2	Pune	Municipal Corporation
3	Pimpri Chinchwad	Municipal Corporation
4	Naya Raipur	Development authority
5	Indore	Company
6	Mysore	State Road Transport Corporation

The Cities covered under the SUTP IBRD project:

S.No	City Name	Status
1	Jalandhar	Municipal Corporation
2	Pune	Municipal Corporation
3	Pimpri Chinchwad	Municipal Corporation
4	Naya Raipur	Development authority

The budgeting exercise will start with signing of the Project Agreement along with approved Detailed Project Reports (DPRs) for the sub-project. The DPRs would contain physical and financial targets over the life of the project which would form the basis for the budgeting exercise.

Cost related to GOI's package will be included in the budget of MOUD and Ministry of Finance (MOF) under appropriate head and the costs related to PIA's package will be included in the budget of the respective State under appropriate head.

### 2.1 RESPONSIBILITY FOR BUDGET PREPARATION

#### 2.1.1. Preparation / Monitoring

The primary responsibility of preparation of budgets is with the PIAs i.e. the Finance Manager at the PIU and State Finance Department. The budgets should be prepared as per the systems prescribed in respective Municipal Act or systems/procedures applicable to the PIA.

#### 2.1.2. Approval of Sub-project Budgets

The budgets should be approved by State Urban Department (SUD) and State Finance Department. The PIA Finance Manager will be responsible for obtaining information about time table of state budget and incorporation of requirements of SUTP in the state budget.

### 2.1.3. Oversight and Control Responsibility

The PMU will be responsible for oversight of the budgetary control procedures at national level, which would include:

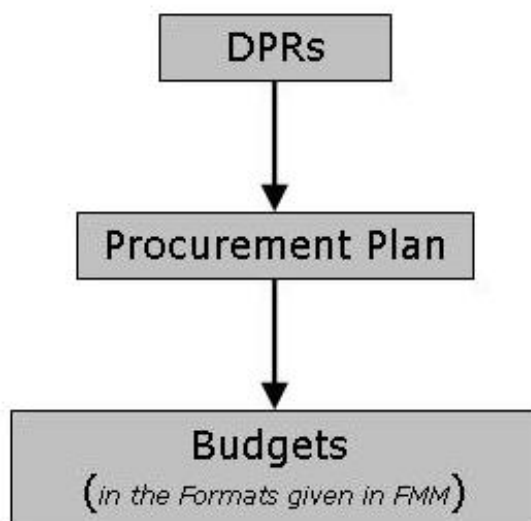
- Overall consolidation of budgets for national level monitoring; and
- Monitoring whether claims made by the PIAs are within approved budgets.

## 2.2 BUDGET PREPARATION

The PIA will prepare budgets of sub-projects according to the definitions, parameters, methods and procedures prescribed in the Municipal Act or system/procedures applicable to the PIA. The additional procedures to be incorporated in the budgeting process have been discussed in subsequent sections.

### 2.2.1. Linkage with DPR and Procurement plan

All the budgeted outflows should be linked with the DPR and their respective approved Procurement Plans available with the PIU. The steps for budget preparation would be as given in **Figure 2.1**.



**Figure 2-1: Steps for Budget Preparation**

### 2.2.2. Stages of Budget

#### A) Budget of First Two Quarters

Over all cost of sub-project should be broken on yearly basis and budget of first year should be broken into quarters (Q1, Q2, Q3 & Q4). The format of the budget should be as shown in **Table 2.1**.

**Table 2-1: Format for Budget Preparation**

Name of the City:  
 Period From \_\_\_\_\_ To \_\_\_\_\_  
 For the Quarter Ended:

S. No.	Activities	Total Cost	Funding Agency					Quarter 1 and 2 ( From to )					Total	Quarter 3	Quarter 4	Balance (For remaining years)	Total cost
			JNNURM					JNNURM									
			GOI	State	IA	GEF	IBRD Loan	GOI	State	IA	GEF	IBRD Loan					
		A( a to e)	a	B	c	d	E	F	G	h	i	j	k(f to j)	l	m	N (A-k-l-m)	B (k to n )
1	Project																
	~ Sub Project																
	~~~Major Activities																
	Total (Rs. in Millions)																
	Total (USD in Millions)																

**Note:-**

- 1) The quarterly break up will required for next four quarters at any given point of time and amount related to year no. 2, 3 and 4 will be shown in balance amount.
- 2) The funding agency wise bifurcation will be made only for quarter 1 and 2.

**B) Budget of Subsequent Quarters**

The budgets will be reviewed and revised on quarterly basis on the basis on actual performance. The following reports should be prepared at the time of each review:

- Comparison of budgeted and actual expenditure for the quarter.
- Cumulative amount incurred up-to date in totality and by funding agency .
- Funding agency-wise balance amount to be incurred.
- Forecast/budget of next two quarters.

Formats of above mentioned reports have been given as part of **Appendix No- 2**.

**2.3 Role of the PMU in Budgeting Process**

- **Training** The PMU will provide training to Finance Managers of PIUs for preparation of budget and other relevant reports. The training can be provided either by organizing workshops or by one to one interaction at site.
- Overview of the budgetary control process.
- Endorsement of the IUFR after review that all expenditures are within approved budgets.
- Keeping track of actual expenditure of overall project at National Level.

## Chapter 3. Accounting

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The accounting for Component 1 will be done by PMU and PIUs under GEF-SUTP project and for Component 2 by PIUs for their sub-projects under the IBRD-SUTP project. The accounting for each sub-project will include sources from all funding agencies, including IBRD and GEF.

### 3.1 BASIS OF ACCOUNTING

Accounting for the project will be carried out on cash basis and include the following important features:

- Expenditure will be recorded at the time of payments to contractors, consultants and suppliers;
- All transfers from State Government to downstream PIA will be shown as advances until payment of expenditure is made; and
- All commitments will also be reflected in the project financial statement.

### 3.2 BOOKS OF ACCOUNTS

- The accounting procedures will be followed as defined in Municipal Corporation Act or existing systems and procedures applicable to the PIA;
- Quarterly Interim Un-audited Financial Reports (IUFR) will be prepared on the basis of cash system of accounting ; and
- Separate ledgers/vouchers and other relevant accounting records will be made for project activities in support of IUFR. The following records should be maintained by all the PIAs:
  - ✓ *Cash Book and Bank Book;*
  - ✓ *Vouchers with supporting documents;*
  - ✓ *Ledgers, and the broad ledgers heads are as follows:*
    - *Work in Progress ( Activity-wise)*
    - *Advances ( Person-wise)*
    - *Fixed Assets ( separately for each asset)*
    - *Contribution account ( Funding agency-wise)*
    - *Loan account ( Funding agency-wise)*
    - *Expenses as approved in the DPRs.*

A sample illustration of accounting entries is given below:

### SAMPLE OF ACCOUNTING ENTRIES

S.No	Transactions	Accounting Entries		Description
		Account Head Debit	Account Head Credit	
1	Amount of Grant received by the PIA as advance for expenditure of next two quarters	Bank A/C	Grant (Advance) A/C- Funding Agency-wise	At the time of receipt of the Grant from any funding agency as advance.
2	Receipt of Loan by the PIA as advance against expenses of next two quarters	Bank A/C	Loan ( Advance) A/C- Funding agency-wise	At the time of receipt of loan as advance for the expenditure of next two quarters.
3	Advances to Contractors as per the Contract	Contractors ( Advance )A/C – The Advances ledgers will be opened under the Group of Advances to Contractor or Consultants	Bank A/C	<i>Advances Given to Contractors or Consultants:</i> Advances would be treated as advances till expenditure bill is produced. At the time of charging expenditure to Fixed Assets or expenses, the Finance Manager should understand the nature of expenditure and do the needful.
4	At the time of recognizing expenditure/submission of the Running bill	i) If related to the fixed assets  WIP ( -----) A/C – The WIP account will be opened for different major activities i.e.	iii) Contractor (Advance )A/C  iv) Contractor A/C	The advances will be adjusted at the time of completion of Job in full or part

		BRTS, Subway etc. ii) If related to the revenue expenditure  Expenses A/C		as per the terms and conditions given in the contract and balance will be transferred to Contractor's account (Creditors). It means Contractor is having two accounts in the nature of Advances and Creditors.
5	At the time of Submission of the IUFRR and Approval from the Funding agency for Grant.	Grant (Advance) A/C- Funding Agency-wise	Grant A/C- Funding agency-wise	The Amount which will be approved by the funding agency.
6	At the time of Submission of the IUFRR and Approval from the Funding agency for Grant.	Loan ( Advance) A/C- Funding agency-wise	Loan A/C- Funding agency-wise	The Amount which will be approved by the funding agency.
7	At the time of completion of the Activity	Fixed Assets A/C- Will be defined according to nature of assets created	WIP(-----) A/C	All the costs will be transferred to respective Fixed Assets after receiving the Completion Certificate.

- ✓ Fixed Assets Register as per format in **Appendix 2**
- ✓ Purchase Control Register as per format in **Appendix 2**

### 3.3 SEPARATE BANK ACCOUNT

Each PIA will open a Separate Project Bank account for receipt and utilization of funds from IBRD, GEF and all other funding agencies. The authorized signatories will be decided as per the applicable Municipal Act or existing system/ procedures of the PIA. The critical issues need to be incorporated in accounting procedures are as follows:

- Funding agency-wise utilization should be recorded in the accounting system by opening

different cost centers or sub-ledgers and annual reconciliation with advances.

- Bank reconciliation statement will be prepared on monthly basis.

### 3.4 PROJECT-WISE ACCOUNTING

Separate books and records will be maintained for each sub-project which will include all sources of funding, including IBRD and GEF. The PIAs will be responsible for preparing IUFRs supported by separate vouchers/ledgers and other accounting records

Separate Funding agency-wise utilization should be available in the accounting system. The same can be maintained by creating cost centres at the time of booking the expenditures and payments. Cost centre facility is available in most accounting packages i.e. in case of ‘off the shelf’ package like TALLY which is being used by 4 PIAs.

### 3.5 INTERIM UN-AUDITED FINANCIAL REPORTS (IUFR)

Quarterly IUFR statement will be prepared on cash basis of accounting and the process for submission will be as shown in **Figure 3.1**.

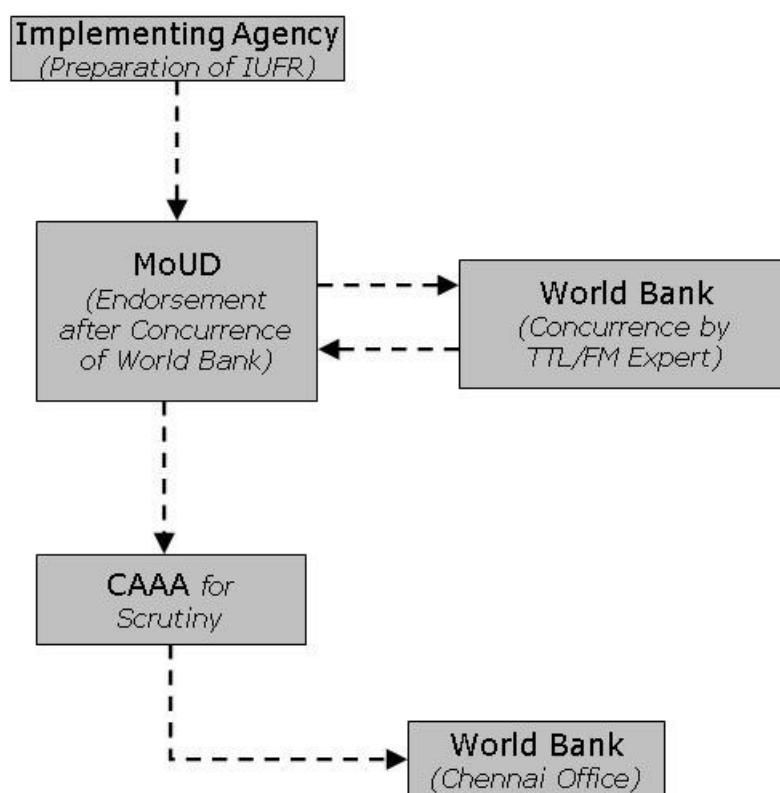


Figure 3-1: Process for Submission of IUFRs

Table 3.2 Time lines for submission of IUFR

S.No	Activity	Days required
1	PIA to MOUD	30 days from the end of Quarter



2	MOUD to WB, for concurrence of Team Task Leader/ Financial Management Specialist	15 days
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**Note:-** IUFRRs for all cities will be sent to World Bank and CAAA in one go. If any city is not able to submit the IUFRR within the prescribed time limit, the same will be entertained in next quarter only.

### **3.5.1. Quarterly IUFRRs for submission to World Bank will comprise the following:**

- A. Expenditure for the Quarter
- B. Cumulative Expenditure to date
- C. Claimable amount for Period (last two quarters)
- D. Claim Reconciliation Sheet
- E. Budget Vs Actual Expenditure
- F. Statement of commitments

Formats for the IUFRRs are enclosed at Appendix No- 1

Apart from the IUFRR each PIA should prepare the following reports for national level monitoring:

- A. Budget for the first two quarters
- B. Comparison of Budgeted and Actual Expenditure for the Quarter
- C. Funding Agency-wise Cumulative Amount Incurred to date
- D. Funding Agency-wise Balance Amount left for Expenditure
- E. Forecast for Next Two Quarters
- F. Fixed Assets Register
- G. Purchase Control Register
- H. Reconciliation of Funds Released by World Bank to MOF, MOF to State and State to PIU

The formats for the same are enclosed in appendix no-2.

The abovementioned reports should be submitted to the PMU on quarterly basis along with the IUFRRs.

### **3.6 PROJECT FINANCIAL STATEMENTS (PFS)**

The annual financial statements should contain the following:

- A. Statement of Sources and Application of Funds
- B. Schedules Annexed to Project Financial Statements:

- An Annual Statement reconciling the claims received and actual expenditures made, both quarter by quarter and annually;
- Statement comparing budgeted estimates with actual expenditures by the PIA; and
- Statement of Commitments by the PIA for the sub-project.
- Statement of reconciliations between the state government releases, amounts claimed and those received by the PIAs.

C. Significant Accounting Policies and Explanatory Notes (based on FM Manual)

The PFS should be prepared as per the format given in **Appendix 3** .

As per World Bank guidelines, the Annual Audited Project Financial Statement should be submitted within six months from close of the financial year to the World Bank.

### **3.7 FIXED ASSETS**

The PIA will ensure proper recording of fixed assets created under SUTP. A separate Fixed Asset Register for sub-project should be maintained as per **Appendix 2**. The Fixed Asset Register must be reconciled with accounting records on a quarterly basis. Physical verification of assets should be done on yearly basis and reports should be submitted to the PMU.

## Chapter 4. Audit Procedures

### 4.1 INTERNAL CONTROLS AND AUTHORIZATION PROCESSES

The PMU will follow the same internal control and authorization procedures as defined for MOUD for implementation of Component 1 and 3.

The PIAs will follow the authorizations and internal control systems as described in their respective Acts.

In addition to above, the PIA will follow the procedures defined in different sections of FMM for budgeting, accounting and reporting.

### 4.2 INTERNAL AUDIT FUNCTION

Internal Audit function shall be entrusted to a single audit firm of Chartered Accountants (CA) for all the PIAs and PMU. The internal auditor will be appointed by the MOUD. The responsibilities for internal audit function have been described in **Table 4.1**.

**Table 4-1: Responsibilities for Internal Audit**

S.No	Activity	Responsibility
1	Appointment of Audit Committee	Steering Committee
2	Appointment of the Internal Auditors	MOUD
3	Completion of Internal Audit with in prescribed time limit:	
	<ul style="list-style-type: none"><li>Providing all required documents and information to Auditors</li></ul>	PIA
	<ul style="list-style-type: none"><li>Conducting the audit and submission of Reports to PIA with copy to PMU</li></ul>	Auditors
4	Compliance of Audit Observations	PIA
5	Review of reports and submission of report with observations/comments to Audit Committee	PMU
6	Submitting remarks and recommendations to Steering Committee.	Audit Committee

- Audit Committee: An Audit Committee will be formed to overview the Audit Function. The composition of the Audit Committee will be decided by the Steering Committee.
- Frequency: The Audit will be conducted on a **Quarterly** basis.
- Time Line: The Internal Audit report should be submitted within 30 **days** from the end of Quarter. Internal Audit Report will be submitted to the PIA with a copy to PMU.
- The PMU will place the report in the Audit Committee along with its observations/ comments.

The ToR has been given as **Appendix 3**.

### 4.3 STATUTORY AUDIT

External audit of project accounts of the PIAs will be conducted by the Comptroller & Auditor General (C&AG) of India through its offices in the respective states, in accordance with the ToRs agreed with The Bank. The responsibilities for statutory audit function have been described in **Table 4.2.**

**Table 4-2: Responsibilities for Statutory Audit**

S. No.	Activity	Responsibility
1	Coordination	
	~with the C&AG	PMU
	~ With State AGs	PIAs
2	Completion of Statutory Audit within prescribed time limit:	
	• Providing all required documents and information to Auditors	PIA
	• Conducting the audit and submission of Reports to PMU.	AG (States)
3	Compliance of Audit observations	PIA
4	Review of reports and submission of report with observations/comments to Audit Committee	PMU
5	Submitting remarks and recommendations to Steering Committee.	Audit Committee

- Frequency: The Audit will be conducted on an **Annual** basis.
- Time Line: The Statutory Audit of the PIAs including PMU, should be completed within 90 days from the end of year and report sent to MOUD.

The terms of reference of statutory auditor have been enclosed in **Appendix 4.**

1. Note: The Comptroller and Auditor General of India will undertake audit of financial statements with respect to Part 2 of the Project through its field offices for activities to be undertaken by various Project Implementing Agencies. Accordingly, as indicated in the Comptroller and Auditor General of India's letter dated October 13, 2009 to the Department of Economic Affairs, Ministry of Finance, the state governments will make an appropriate request to the respective field offices of the C&AG promptly after legal agreements have been signed. The state government shall also issue entrustment letters for this purpose after the C&AG conveys its acceptance.

List of the audit report is as follows:-

<b><i>Audit Report</i></b>	<b><i>Implementing Agency</i></b>	<b><i>Due Date</i></b>
Special Account	DEA/Gol	30 September
PMU For Component 1	MOUD	30 September
Naya Raipur	Naya Raipur Development Authority	30 September
Pune	Pune Municipal Corporation	30 September
Pimpri Chinchwad	Pimpri Chinchwad Municipal Corporation	30 September
Mysore	Karnataka State Roads Transport Corporation	30 September
Indore	Indore City Transport Corporation	30 September
Jalandhar	Jalandhar Municipal Corporation	30 September

## *Chapter 5. Implementation of FM Arrangements*

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The financial management of the project will be carried out at two levels – at national level and at PIU level by the PMU and PIUs respectively.

### **5.1 FINANCIAL MANAGEMENT AT NATIONAL LEVEL**

The PMU will undertake the implementation responsibility for component 1 and 3 and will oversee the implementation of component 2. The following will be the role and responsibility of PMU for financial management:

#### **5.1.1. Training for FMM**

Assessing training requirements of the PIAs on minimum FM criteria and organize training as considered necessary by the PMU. The major focus of the training will be on procedures prescribed in the FMM.

#### **5.1.2. Submission of IUFRRs and Project Financial Statements (PFS)**

Coordinate with the PIAs for timely submission of quarterly financial reports and PFSs of the project to the WB. The PMU will endorse the IUFRR after carrying out limited review as defined in section 5.1.4.

The PMU will also conduct regular reviews of IUFRRs and timely compliance of audit observations.

#### **5.1.3. Audit function**

- Appointment of Internal and Statutory Auditors;
- Finalization of TORs of Internal and Statutory Auditors;
- Co-ordination with the Auditors for timely completion and submission of audit reports; and
- Review the Action Taken Report for Internal and Statutory Audit .

#### **5.1.4. Endorsement of IUFRRs**

The PMU will review the IUFRRs submitted by the PIAs for claiming disbursement from different agencies. It will be endorsed after review of the following:

- Budgetary control;
- Checking of the claim made by the PIA against physical progress of work as reported in internal audit report; and
- Any material negative observations

In the following conditions the PMU can exercise Veto power to return the claim:

- Fraud;
- Cross-utilization of funds; and
- Consistent default in implementation of systems defined in the FMM

To enable proper functioning of PMU, a number of professionals have been proposed to be appointed along with a Finance and Accounts Specialist. The responsibilities of the Finance & Accounts Specialist would include the following:

- Training of PIU accounts staff to strengthen their capacity as per the FMM
- Exercising overall budgetary control on project activities
- Follow up with the PIAs to ensure that annual budgets of the PIAs for the project are included in the state budget
- Preparation of budget for PMU and accounting and reporting for PMU level activities
- Conduct limited review of quarterly IUFRs (Interim Unaudited Financial Reports) submitted by the PIAs
- Coordinate timely completion of quarterly internal audit at all the PIAs and the PMU for the project and presentation of internal audit findings to the Audit Committee at MOUD
- Coordinate timely submission of annual statutory audit reports to the World Bank for the project.

## **5.2 FINANCIAL MANAGEMENT AT IMPLEMENTING AGENCY LEVEL**

Every PIA should have a professional accountant or an accountant with adequate experience and adequate number of support staff. He/she shall be responsible for drawal, disbursement and deposit of project funds. The duties of the Accountant at PIU would include the following:

- Budget preparation as per the process and formats prescribed in the FMM;
- Keeping separate accounts and related records of the sub-project;
- Preparation of IUFRs and other reports in prescribed format;
- Ensure compliance of systems and procedures defined in the FMM; and
- Coordinate timely completion of Internal and Statutory audit within the prescribed time lines

# Chapter 6. Flow of Funds and Disbursement

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## 6.1 DISBURSEMENT SCHEDULE

The funds flow arrangements discussed here were finalised by the MOUD and CAAA in consultation with the World Bank.

The Government of India (GoI) will open a Designated Account (DA) in Reserve Bank of India to receive disbursements from the World Bank. The Bank would provide an initial advance of \$15 million towards the Designated Account for IBRD-SUTP project and US\$2 million towards Designated Account for GEF-SUTP project. The Bank will disburse funds every six months based on the IUFs submitted by MOUD which will be based on actual expenditure. They will be accompanied by detailed Statements of Sources and Uses of Funds which will report actual expenditures and all other statements outlined in the Interim Unaudited Financial Reports (IUFs). These quarterly IUFs will be reconciled with Audited Annual Financial Statements every year and ineligible expenses will be recouped.

## 6.2 FUND FLOW MECHANISM

The funds for the project will be through three sources namely, the GoI, GEF grant from UNDP and the World Bank and IBRD loan from the World Bank. The detailed fund flow for all the three components of GEF- SUTP have been discussed in the ensuing sections.

### 6.2.1. Fund Flow for Component 1

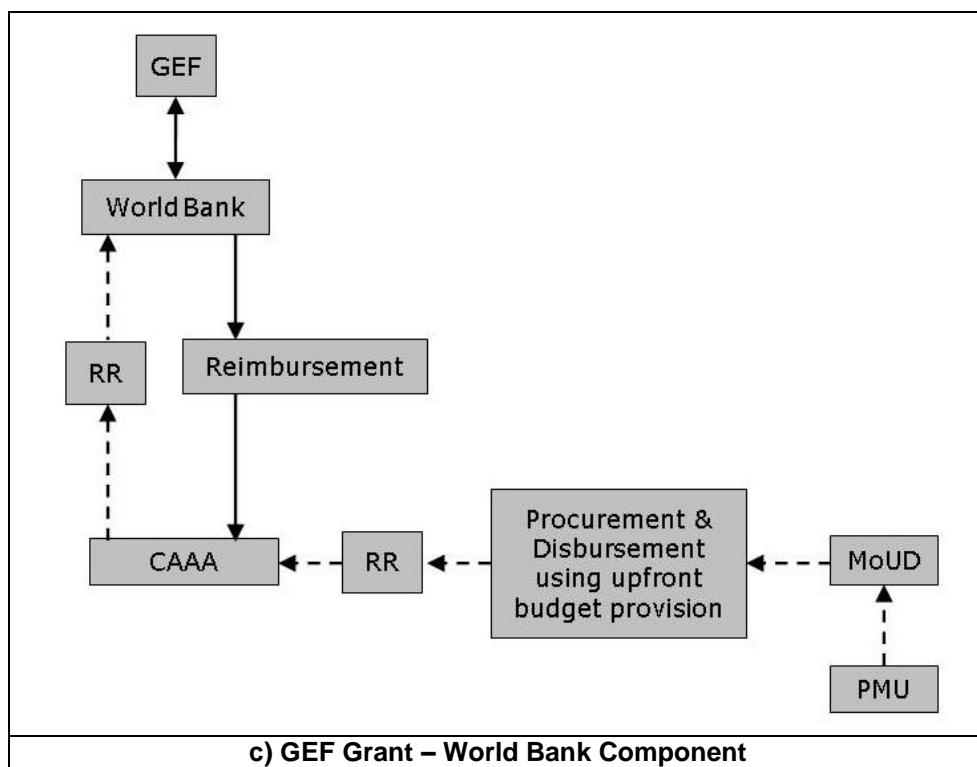
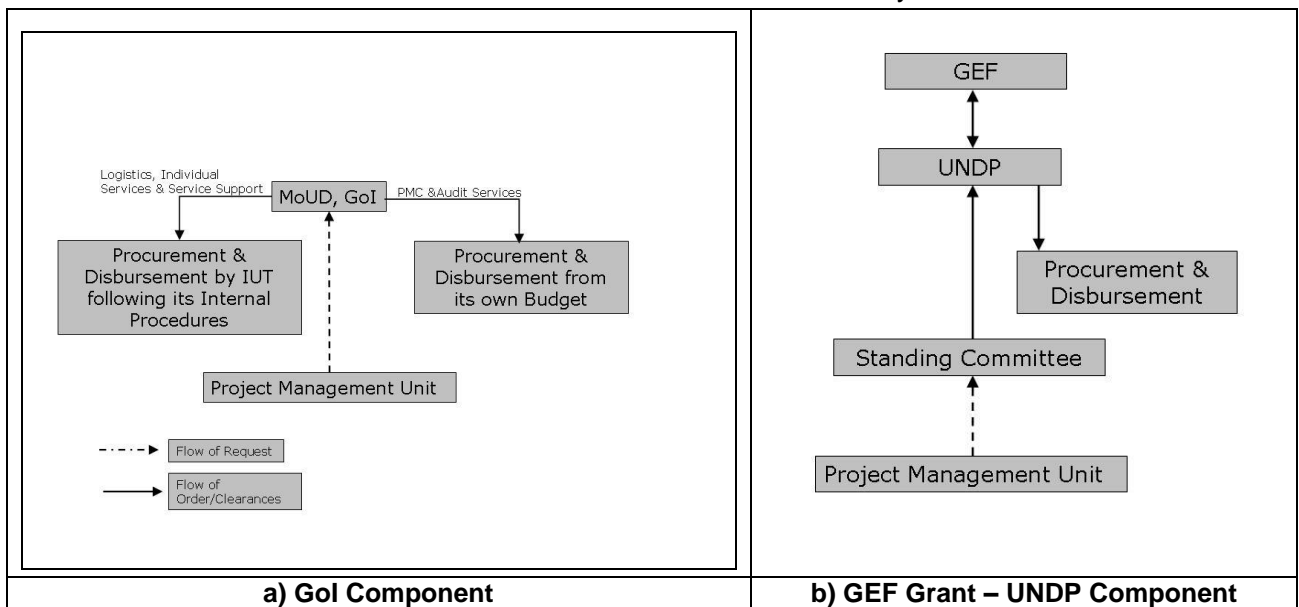
Funds for undertaking activities under the component 1 will be sourced from three agencies namely, GoI, GEF grant through UNDP and GEF grant through the World Bank. The sub-component 1& 2 will be jointly funded by the UNDP and GoI, sub-component 3 & 4 will be entirely funded by the UNDP and the sub-component 5 will be jointly funded by the World Bank and GoI. The **Figure 6.1** shows the fund flow mechanism to be followed for accessing funds from the various agencies.

- A) **GoI funds-** the MoUD has already allocated some funds for Capacity Building activity under its own budget. The PMU will send an application to MOUD requesting funds for specific activities as identified under Component 1. MOUD will in turn retrieve the funds from the allocated budget and will directly undertake the procurement and disbursement for the proposed activity as per its own procurement process. The MOUD may allocate certain funds to IUT for providing services and logistic support to the PMU, using IUT's internal procedures (as decided by the Steering Committee).
- B) **GEF grant through UNDP-** The GEF grant for Sub-Components 1, 2 3 and 4 of Component 1 are to be sourced through UNDP. For all activities for which UNDP is the implementing agency, a Standing Committee has been setup under the chairmanship of the National Project Director. The PMU will submit the request for funds for the specified activities to the Standing Committee. The committee will meet at a prescribed date and time and decided upon the request. Once approved by the Standing Committee the



request will be submitted to UNDP, which will then carry out the procurement and disbursement activity as per their prescribed guidelines. The UNDP will seek the funds directly from GEF.

- C) **GEF grant through World Bank-** The GEF grant for Sub-Component 5 of Component 1 is to be sourced through the World Bank. The PIA will submit a request to MOUD to undertake a specific activity under this component. The MOUD will carry out the procurement and disbursement as per World Bank guidelines using the upfront budget provision created for the project. It will then submit a request for reimbursement against the expenditure incurred to CAAA after taking clearance from the World Bank. CAAA will submit a reimbursement request to the World Bank, which after review will reimburse the amount to CAAA. The World Bank will seek the funds directly from GEF.



**Figure 6-1: Fund Flow Mechanism for Component 1**

**6.2.2. Fund Flow for Component 2**

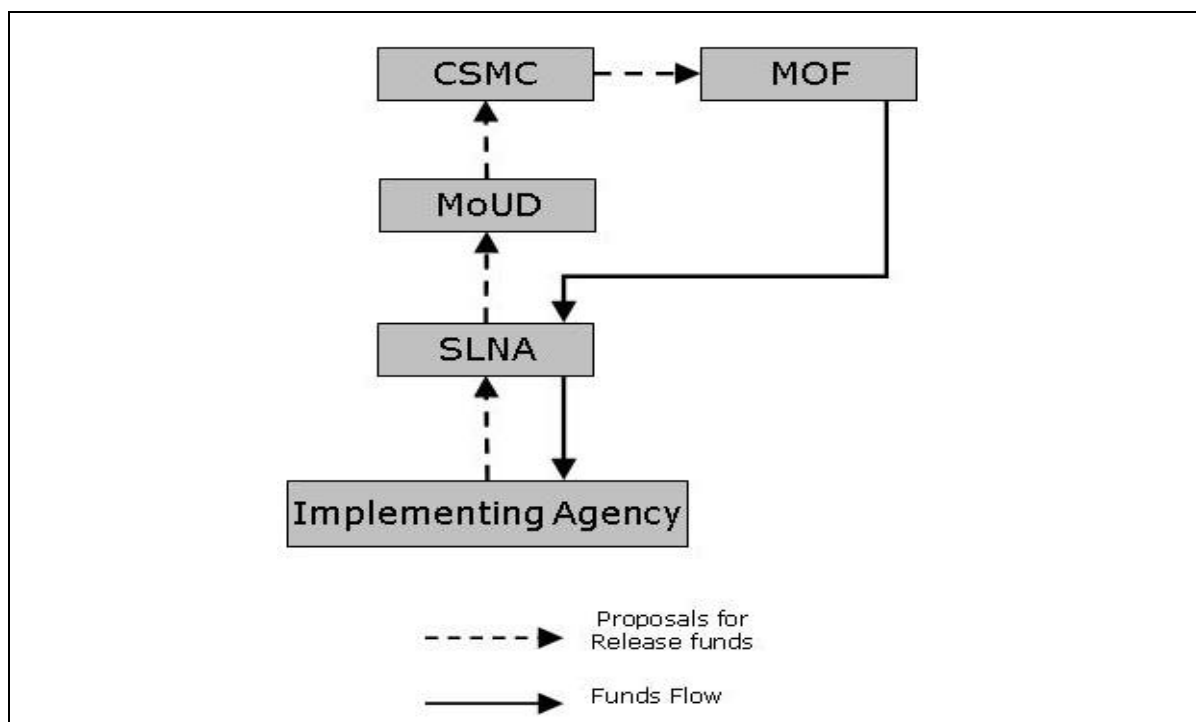
The Component 2 of the SUTP consists of 6 demonstration cities. As decided by Planning Commission and DEA, Component 2 will be under the State Sector. The proposed fund flow for the component is through 3 sources:

- GoI- NURM funds
- GEF- Grant through World Bank
- IBRD Loan through World Bank

A) **GoI- NURM funds-** All the cities selected under Component 2 are JnNURM cities except for Jalandhar. Therefore, major source of funding for these cities would be from JnNURM as per its prescribed norms and procedures. As per the JnNURM guidelines, the implementing agency will submit the request to the State Level Nodal Agency (SLNA) for funding. The SLNA reviews the request and forwards it to MOUD. MOUD then puts it up to the Central Sanctioning and Monitoring Committee (CSMC). Once endorsed by the CSMC, the request for release of fund is sent to Ministry of Finance which directly transfers the funds to SLNA, which then in turn passes it on to the Implementing Agency.

B) **GEF grant through World Bank/ World Bank Loan-** To seek the GEF grant or World Bank loan, the PIA will have to send a request to the state government which would forward it to MOUD. The Ministry would review the request and forward it to CAAA after receiving clearance from Task Team Leader of the World Bank. After scrutiny of the same the CAAA will forward it to the World Bank for release of money. The CAAA will receive and then release the funds to the state government, which will pass it on to the PIA.

**Figure 6.2** shows the fund flow mechanism to be followed for accessing funds from the various agencies.



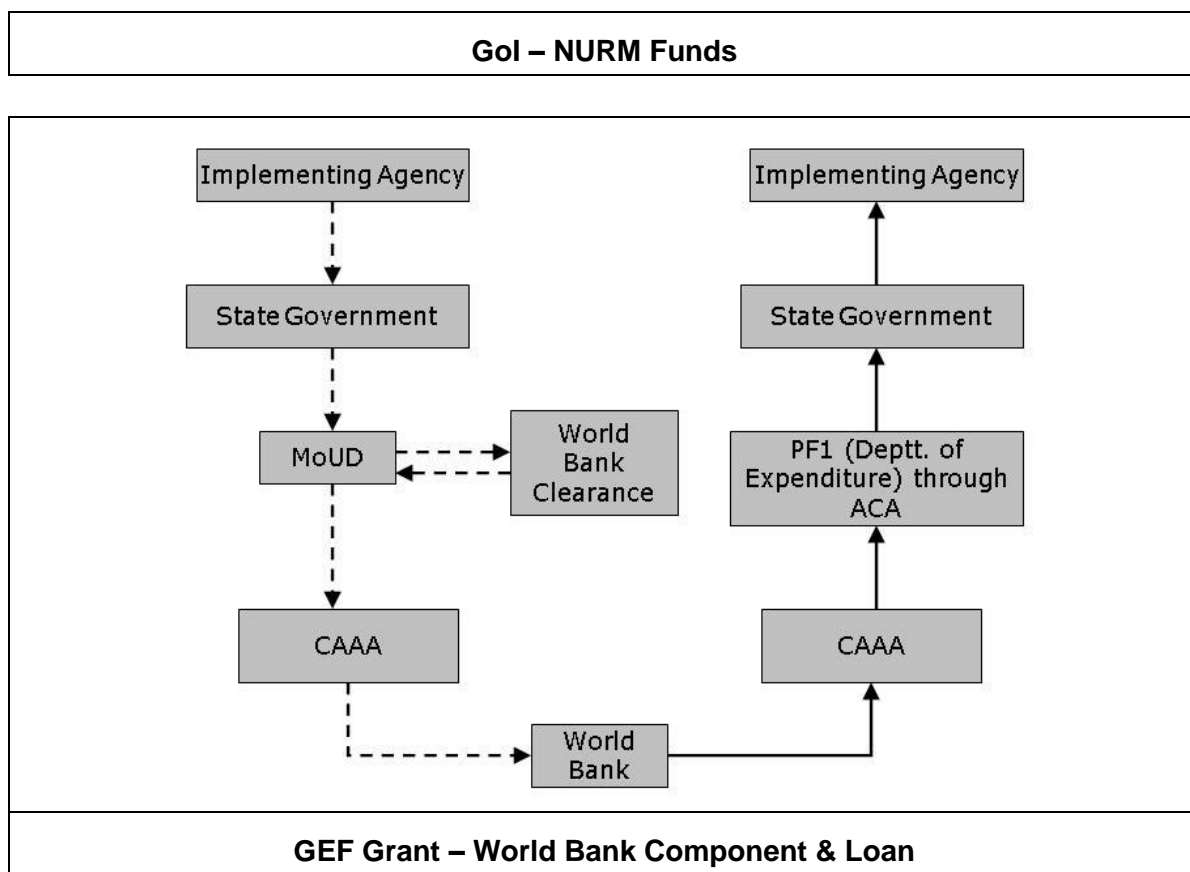


Figure 6-2: Fund Flow for Component 2

**6.2.3. Fund Flow for Component 3**

Funds for undertaking activities under the component 3 will be sourced from two agencies namely, GoI and GEF grant through UNDP. The fund flow mechanism under this component would be the same as discussed above for GEF grant through UNDP and GOI grants.

## List of Reports to be made by IAs

S.No	Appendix Reference	Report Description	Frequency	Time Limit for Submission	Annexure Reference
<b>Format of IUFRRs for GEF Project</b>					
1	1 (a)	Expenditure for the Quarter	Quarterly	'within 30 days from the end of quarter'	Format No-1
2	1 (a)	Cumulative Expenditure to Date	Quarterly	'within 30 days from the end of quarter'	Format no-2
3	1 (a)	Claimable amount for Period ( Last two Quarters)	Quarterly	'within 30 days from the end of quarter'	Format no-3
4	1 (a)	Claim Reconciliation Sheet	Quarterly	'within 30 days from the end of quarter'	Format no-4
5	1 (a)	Budget Vs Actual Expenditure	Quarterly	'within 30 days from the end of quarter'	Format no-5
6	1 (a)	Statement of Commitments	Quarterly	'within 30 days from the end of quarter'	Format no-6
<b>Format of IUFRRs for IBRD Project</b>					
7	1 (b)	Expenditure for the Quarter	Quarterly	'within 30 days from the end of quarter'	Format No-1
8	1 (b)	Cumulative expenditure to Date	Quarterly	'within 30 days from the end of quarter'	Format no-2
9	1 (b)	Claimable amount for Period ( Last two Quarters)	Quarterly	'within 30 days from the end of quarter'	Format no-3
10	1 (b)	Claim Reconciliation Sheet	Quarterly	'within 30 days from the end of quarter'	Format no-4
11	1 (b)	Budget Vs Actual Expenditure	Quarterly	'within 30 days from the end of quarter'	Format no-5
12	1 (b)	Statement of Commitments	Quarterly	'within 30 days from the end of quarter'	Format no-6
<b>Format of MIS Report to be submitted to PMU</b>					
13	2	Budget for First two Quarters	One time	At the time of Starting of the project	Format No-2.1
14	2	Comparison of Budgeted and Actual Expenditure.	Quarterly	'within 30 days from the end of quarter'	Format No-2.2
15	2	Funding agency-wise Cumulative Amount incurred to date	Quarterly	'within 30 days from the end of quarter'	Format No-2.3
16	2	Funding agency-wise Balance Amount Left for Expenditure	Quarterly	'within 30 days from the end of quarter'	Format No-2.4
17	2	Forecast for Next Two Quarters	Quarterly	'within 30 days from the end of quarter'	Format No-2.5
18	2	Fixed Asset Register	Quarterly	'within 30 days	Format No-2.6

				from the end of quarter'	
19	2	Purchase Control Register	Quarterly	'within 30 days from the end of quarter'	Format No-2.7
20	2	Reconciliation of Funds Released by World Bank to MOF, MOF to State and State to PIU	Quarterly	'within 30 days from the end of quarter'	Format No-2.8
<b>Formats for Project Financial Statements</b>					
21	3	Statement of Sources and Application of Funds	<b>Yearly</b>	Within 90 days from end of the year	Format No-1
22	3	Reconciliation of Claims to Total Applications of Funds	Yearly	Within 90 days from end of the year	Format No-2
23	3	List of Claims Submitted to World Bank	Yearly	Within 90 days from end of the year	Format No-3
24	3	Reconciliation of Claims – Component-wise	Yearly	Within 90 days from end of the year	Format No-4