

# CHENNAI METRO RAIL LIMITED

## TERMS OF REFERENCE FOR OUTSOURCING OF INTERNAL AUDIT

### 1. BACKGROUND

Chennai Metro Rail Limited (CMRL), hereinafter referred to as the Client, is the Special Purpose Vehicle of the Government of Tamil Nadu and the Government of India for implementation of Phase 1 of the Chennai Metro Rail Project. The GoI and GoTn have approved a Metro Rail project for Chennai in January 2009 with a total budget of INR 14600 crores (US \$3 Billion). The project aims to alleviate the traffic problems of the city and reduce vehicular pollution. The Client intends to invite Tenders for Consultants to carry out an Internal Audit function initially for a period of 1 year and will be renewed subject to the performance.

### 2. PURPOSE

CMRL invites tenders from reputable audit firms for the following services:

- Developing a one-year concurrent internal audit coverage plan for the period 20012/13 extendable based on the performance for the next year.
- Performing a risk based internal audit as per an agreed coverage plan.

Eligibility Criteria:

I. The firm must be empanelled with C & AG, without which the application of the firm would not be considered.

II. Firms must also qualify following minimum criteria:

- a) Any firm not qualifying these minimum criteria need not apply as their proposal shall be summarily rejected.

b)

Sl. No.	Particulars*	Minimum Criteria
1	Number of Full Time Partners associated with the firm for not less than 3 years with at least one being a Fellow CA	6
2	Turnover of the firm (Average annual in last three financial yrs.)	100 lakhs
3	No. of Years of Firm Existence	5 years
4	No. of assignments of Statutory Audit of Corporate/PSUs entities except Bank / Branch Audit having a average turnover of not less than Rs 100 crores in the last 3 years.	Atleast 2 nos.

c) Supporting Documents for Eligibility Criterions:

Following supporting documents must be submitted by the firm along with the technical proposal:

- i. For S. No. 1 above, the firm must submit an attested copy of Certificate of ICAI
- ii. For S. No. 2, the firm must submit, a copy of the balance sheet for the last three years.
- iii. For SNo.3, the firm shall submit a declaration for no of years in existence.
- iv. For S. No. 4, the firm must submit a copy of the appointment letters from the auditee organizations and Annual reports evidencing the turnover of the auditee organizations. Bank/Branch Audit of any Bank shall not be considered while taking into account the total number of assignments.

### 3. SCOPE OF THE WORK

The audit will be carried out in accordance with the relevant national standards of auditing, and will include such tests and controls as the auditor considers necessary under the circumstances. The general scope of the Internal Audit function includes the following besides the specific audit requirement of CMRL. In conducting audit special attention should be paid to the following: -

i) General Scope

1. Ensure that the accounting and financial management systems remain reliable and effective in design and to assess the extent to which they are being followed;

2. Review the efficacy, adequacy and application of accounting, financial and operating controls and thereby ensure the accuracy of the books of accounts;
3. Verify that the system of internal check is effective in design and operation in order to ensure the prevention of and early detection of defalcations, frauds, misappropriations and misapplications;
4. Identify areas of significant inefficiencies in existing systems and suggest necessary remedial measures;
5. Confirm the existence of financial propriety in all decision and verify compliance to government and statutory requirement.
6. Confirm that the agreed procurement procedures and arrangements have been followed for contract works, goods procured and services.
7. Check that all expenditure on works funded by JICA/GoTN/GOI Assistance, including procurement of goods and services have been incurred in accordance with the rules and relevant financing agreement.
8. That adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, identification and location of assets; and that the physical verification of assets is being carried out with due diligence.
9. Conducting special assignments and investigations on behalf of the Audit Committee or Managing Director into any matter or activity affecting the probity, interests and efficiency of the CMRL.

ii) Specific Audit requirements of CMRL

This assignment of Internal Audit will be done on concurrent basis. The audit compliance includes the following besides 100% pre audit of vendors bill before release of payment with the time frame as per CMRL existing policy & procedures.

1. Review all expenses and payments incurred by CMRL, covering the following key aspects:
  - a. Approvals as per delegation of Authority
  - b. Compliance to policies and standard operating procedures of CMRL
  - c. Adequacy of supporting documents as per nature of the payment
  - d. Adherence to Accounting Practices and standards as per the ICAI
  - e. TDS, Service Tax, VAT, Professional Tax, Income Tax, PF, ESI , any other statutory levies, etc - applicability, deductions and remittances - Compliance of various e-returns
  - f. Adherence to requirements of Companies Act, 1956, Foreign Exchange Management Act, 1999 .
  - g. Adherence to Chief Vigilance Commission guidelines.
  - h. Adherence to the Indian Contract Act, 1872

- i. Adherence to the Directorate General of Supplies & Disposals (DGS&D) guidelines .
  - j. Verification of the contractual obligations and contract management.
  - k. Verification of the key dates by the contractors.
2. Payments to project vendors and non-routine need to be checked with reference to compliance with the contract agreement, other policies of CMRL before release of payment by CMRL within a time frame. However, other expenses like Salaries, rent, etc (routing payments) can be checked after release of payments.

The no of contractor's bill for pre audit before release of payment by CMRL would be 22 approx. But this may increase/decrease during the period under the audit.

3. Review procedures and operational controls existing In various departments to ensure timely, efficient and accurate data is provided.
4. Verification of Bank Reconciliation statement, conduct surprise physical verification of cash.
5. Verification of all the payments including statutory payments with in the Stipulated time.
6. Report on review of expenses and payments regularly.
7. Follow-up review of previously reported observations would be based on confirmation from CMRL
8. Review of the Fixed Assets Register maintained by the company
9. Physical verification of the fixed assets and cash once in a year and certify the same.
10. The following are the various types of Revenue and Capital expenditures which would be covered during the review:

#### Project Expenses

- a. Verification of Agreements/ Purchase Orders/Work Orders
- b. Verification of Invoices
- c. Verification of Accounting under applicable Head of Accounts.
- d. Verification of Project Expenses and Capital Work-in-Progress.
- e. Verification of Compliance with delegation of authority
- f. MIS on monthly summary of expenses and payments relating to the project.

#### General/ Prime Consultancy Charges

- a. Verification of Agreements
- b. Verification of Invoices and Payments made after deduction of Statutory and other deduction as per the Contract.

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- c. Pre-audit of the payments made to General Consultants IPrime Consultants & capitalisation of the same.
  - d. Review of the performance of the GC as per the terms of the contract in consultation with CMRL.

#### Acquisition of Land for the project

#### Salaries and Allowances

- a. Verification of Last Pay Certificates of the Deputationists

- b. Verification of Pay Roll Register
- c. Verification of full and final settlement
- d. Review the process of deduction of TDS, Professional Tax and remittance
- e. Review the applicability of PF/ESI etc.
- Legal and Professional Charges
- Printing & Stationery
- Rent, Electricity and Water
- Maintenance
- Office Supplies
- Advertisement
- Travelling Expenses
- Administration Expenses
- Depreciation & Amortisation
- Utilities and Postage

11. The following are the various types of funding tied up for the Project and which would be covered during the review:
- Government of India
  - Government of Tamilnadu
  - Funding Agency - Japan International Co-operation Agency (JICA)
- Review the process of the claims made periodically and ensures the accuracy of the same with the relevant supporting documents.
12. Providing all necessary support in finalization of Accounts with the Statutory Auditors .
13. Provide support in preparing a detailed Standard Operating Procedures, IFRS and Policies for Finance & Accounts Division .

#### 4. Extent and coverage of internal audit:

The extent and scope of internal audit will be as follows:

1. The internal auditor shall exercise 100% pre check of bills before the same being paid by Finance Division of CMRL of all the awarded contract including elevated, underground and systems contract.
2. The auditor will vouch 100% of cash payment vouchers, bank statements and transfer entry vouchers and cheque payments shall be vouched to cover 100% of the transaction in each of the months selected.
3. A list showing the months / year for which vouching has been carried out shall be mentioned in the report.
4. Routine errors of omissions or commissions noted during the course of internal audit may be rectified on the spot.
5. While conducting internal audit in a subsequent phase, the auditor will ensure that the compliance report on audit observations pointed out in the reports relating to earlier audit is made and corrective actions taken on those points are furnished in the Audit Report of the subsequent phase.

## 5. Period of Internal Audit

The period of internal audit would be one year extendable at the discretion of management for the next year, and it shall be running concurrently with the year during which the audit is done. The audit will be carried out in two phases of six months each ending on 30th September and 31st March. The appointment letter of auditors shall contain the details of date of commencement of audit, completion of audit work in each phase, the date by which the reports are to be submitted and phase-wise fees payable. It shall specify the level of inspecting officer, minimum period he will visit in each phase and the minimum qualifications of the members of the audit team.

## 6. Internal Audit Reports

The report should be structured in a manner to provide the following: (a) audit observations; (b) implications of the observations; (c) suggested recommendations; (d) management's comments/agreed actions and (e) status of actions on the previous recommendations. In addition, the internal auditor should prepare and submit a consolidated report on a six monthly basis, summarizing the individual contract package wise interim reports and highlighting the critical issues which require the immediate attention of the CMRL. The reports should be submitted to CMRL within 30 days of the close of each period of six months. The auditor should discuss results of audit with the Managing Director of CMRL audit in each phase and important observations will be brought to his notice for taking timely corrective action. The report in respect of CMRL shall be submitted in triplicate for each phase of audit to the Managing Director, CMRL along with a soft copy on CD.

## 7. Submission of interim audit Report in respect of Contractor's bills/non routines referred by Finance Division

Interim report on scrutiny of Contractors bills shall however be submitted within 3 working days as and when referred by Finance Division of CMRL so as release payments to contractors bill within the time frame. The interim pre audit report of contractor's bill shall also be issued in three sets along with a soft copy on CD. The Audit Report will also be supported with the certificate from the Audit Firm that they have thoroughly checked required number of records / package as per terms of reference and their findings are based on the same.

## 8. General Terms and Conditions:-

1. Selection of firms will be done only after detailed scrutiny of the credentials of the firm, their competency, no. of qualified Chartered Accountants to be engaged for the Audit work.
2. The firms should be registered with the Controller and Auditor General of India and should quote their registration number.
3. Firms selected by CMRL shall maintain ethics of faith and the information provided by CMRL shall be kept 'strictly confidential'. The

firm shall execute "Confidentiality Non Disclosure Agreement" before commencement of the Internal audit assignment

4. In case of any dispute, the decision of MD, CMRL shall be final and binding.
5. All assignments shall be carried out with due diligence maintaining quality of work done and in least possible time.
6. All reporting including MIS shall be done on regular basis as required by CMRL from time to time.
7. CMRL reserves the right to cancel selected firms, if it considers necessary
8. The Audit work being conducted by the CA firm will be subject to supervision by Internal Audit Division of CMRL as and when required to ensure that the work is progressing as per agreed plan.
9. In case of non-fulfillment of any instructions issued by the CMRL, CMRL will be entitled to cancel the audit work without any obligations.
10. The successful firm shall not be entitled to claim any additional amount for any reason whatsoever for the above audit work.
11. The CMRL reserves the right to reject any or all offers received without assigning any reasons.
12. These are only proposed draft terms and conditions and can be modified at any time by the CMRL at its sole discretion.
13. The Audit party will consist of sufficient number of experienced and qualified professionals in relevant field.

## 9. CONTENTS OF THE TENDER PROPOSAL

The tender proposal of the firm should be submitted in two cover system with technical bid with the following enclosures and financial bid as per Form-Fin 1 to Fin 3 separately.

- i) A proposed plan of action to achieve the objectives of the internal audit function of CMRL. Such a plan should cover short- and medium-term steps to manage the internal audit function;
- ii) A list of references of internal audit appointments ;
- iii) The curricula vitae of the staff who will be available for the duration of the work;
- iv) An undertaking to ensure continuity of staff on the project;
- v) Details of staff training and development policies and procedures, with specific mention of employment equity policies;
- vi) In so far as is possible, a comprehensive budget, showing the service activities proposed, with charge-out rates and budgeted hours per activity, detailing all assumptions made in arriving at a proposed budget, including all costs factors such as travelling. Preference will be given to tenders which show ingenuity in conducting the work.
- vii) Finally, all the supporting documents as in clause. 2.(c) as above & clause 11.2 & 11.5 to assess the eligibility criteria/technical evaluation may also be furnished .

## 10. TENDER PRICE

The tender price is to be in Indian currency and must include applicable taxes and the firm must complete the price table as in Fin 1 to Fin 3 for

one year. The CMRL reserves the right to adjust the number of hours and the ceiling price allocated for budgeting purposes, restructuring, utilising internal resources, etc.

#### 11. EVALUATION CRITERIA FOR SELECTION OF AUDITOR (Expression of Interest)

The Evaluation Criteria for selecting the auditor are mentioned below:

SI No	Evaluation Criteria	Maximum marks
1	Number of Partners (Partners should necessarily be a member of ICAI) (2 marks up to 3 partners, 1 for each additional partner)	10
2	Presence of the Firm in Chennai. The firm having HO/ Branch office shall have adequate staff to undertake audit work at Chennai. The staff includes all including professionals. The staff strength at Chennai up to 50 person will be given 5 marks above 50 persons will be given 10 marks**	10
3	Number of Professionally Qualified Staff (with associate/fellow membership of ICAI, staff with Intermediate qualification will be given proportionate marks) Between 10-25 staff-(5 marks) More than 25 Staff-(10 marks)	10
4	Turnover for the last five years of the firm More than 100 lacs and up to 150 Lacs-2 marks for each year More than 150 Lacs-4 marks for each year	20
5	Number of internal/statutory audit undertaken during the last 3 years in the listed corporate entity or PSUs (whose average turnover is more than Rs.100 crores in the last 3 years.)* (5 marks for each assignment, maximum ten assignments)	50
	Total Marks = St	100

\*evidence of turnover being more than Rs.100 cr shall be furnished by the firm viz auditee's Annual report etc.

\*\* declaration of staff strength be furnished along with technical bid

The Minimum qualifying mark is 75%.

The formula for determining the financial scores is as below:



$S_f = 100 \times F_m / F$  where  $S_f$  is the financial score,  $F_m$  is the lowest price quoted by any consultant and  $F$  the price of the Proposal under consideration.

The weights given to the Technical & financial proposal are :

$T = 0.6$  &  $F = .4$

Total of all the score =  $S_f \times .4 + S_t \times .6$

## 12. Regulation of Audit fees

The payment of Audit Fees as fixed will be made only after completion of Audit Work and submission of Audit Report on pro rata basis. Completion of Audit includes conduct of audit, submission and discussion of report with the Corporation. The Corporation will not pay any advance to the selected audit firm under any circumstances.

Bill for Audit Fees will be submitted to the Internal Audit Division of CMRL along with a certificate indicating that audit has been conducted as per guidelines framed by the Corporation and the work has been completed as per the agreed terms and conditions.

## 13. Other Duties and Responsibilities of Internal Auditors

Duties of Internal Auditor appointed by CMRL

The Internal Auditors are accountable to management and the audit committee to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the purpose and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual internal audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring committees and functions (for example, enterprise risk management, controllership, treasury, governance, finance, disclosure, ethics and quality committees; risk management, quality assurance, regulatory compliance, security, legal, environmental, and external audit functions).

### RESPONSIBILITY

The responsibility of the Internal Auditor would be :

- Develop a flexible annual internal audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates.

- Implement the annual internal audit plan, as approved, including as appropriate any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the audit committee and management summarizing results of audit activities, including significant audit issues and management action plans.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management, the external auditors and the audit committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

#### Rights of the Internal Auditor

The rights of the internal shall include the following subject to the aforesaid terms & conditions:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the audit committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in CMRL where they perform audits

# Form FIN-1: Financial Proposal Submission Form

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Date

To:

Chief General Manager (PF).  
CHENNAI METRO RAIL LIMITED.  
"Harini Towers"  
# 7, Conron Smith Road,  
Gopalapuram,  
Chennai - 600086, India.

Dear Sirs:

We, the undersigned, offer to provide the Internal Audit Services for Chennai Metro Rail Limited in accordance with your Request for Proposal dated [*Insert Date*] & its addendum. Our attached Financial Proposal is for the sum of [*Insert amount(s) in words and figures*<sup>1</sup>]. This amount is inclusive of all the taxes, cess duties and levies..

Our Financial Proposal shall be binding upon us subject to the modifications resulting from Contract negotiations, up to expiration of the validity period of the Proposal, i.e. before the date indicated in Paragraph Reference 1.14 of the Data Sheet.

No Commissions and gratuities paid or to be paid by us to agents relating to this Proposal and Contract execution.

We understand you are not bound to accept any Proposal you receive.

We remain,

Yours sincerely,

Authorized Signature [*In full and initials*]: \_\_\_\_\_

Name and Title of Signatory: \_\_\_\_\_

Name of Firm: \_\_\_\_\_

Address: \_\_\_\_\_

## Form FIN-2: Summary of Costs

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<i>Item</i>	<b>Costs</b>	
	Unit <sup>2</sup>	Indian Rupees
Costs of Financial Proposal inclusive all local taxes, duties, fees, levies ,other impositions and service taxes included for conduct of concurrent internal audit. (Total of 1A+1B+1C in Fin.3)	C/o	
Costs of Financial Proposal inclusive all local taxes, duties, fees levies for conduct of pre audit of (Total of 2A+2B+2C in Fin.3)	C/o	
Total cost inclusive of all taxes (i.e., local taxes, duties, fees levies ,other impositions and service taxes included) <sup>3</sup>	C/o	
Service tax in INR <sup>1</sup>	___%	

**Note :**

1. The service tax shall be reimbursed separately at actual cost upon production of evidence subject to the ceiling amount as quoted above. If there is any increase or decrease in the service taxes due to change in applicable law during the currency of contract, such additional or reduced cost shall be paid by or credited to the Client.
2. C/o means carried over from Form FIN 3.
3. The consultant shall indicate the local taxes, duties, fees levies etc except service tax including percentage of taxes considered in their financial proposal in a separate format.

## Form FIN-3: Breakdown of Costs by Activity

### 1. Internal Audit Team Cost Break down

#### A. Remuneration

Position	Name	Staff Months/Hours	Unit rate in INR	Amount in INR
Partners				
Managers				
Seniors				
Intermediates				
Juniors				
Others				

#### B. Reimbursables if any

N°	Description	Unit	Unit Cost in INR	Amount in INR
	Partners			
	Managers			
	Seniors			
	Intermediates			
	Juniors			
	Others			

#### C. Service Tax

Description	Indicate percentage	Amount in INR
Service tax in INR	__%	

**Note:** 1. The Remuneration & Reimbursable shall include all local taxes, duties, fees levies and other impositions except service tax. The service tax shall indicate the percentage applied on A & B shall be indicated and corresponding amount also be indicated in the above table. The total cost including all taxes, duties, fees levies and other imposition including service tax shall be carried over in the "Form Fin-2 :Summary of cost".



