
INTERNAL AUDIT MANUAL

2010

RURAL ELECTRIFICATION CORPORATION LIMITED

(A Government of India Enterprise)

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PREFACE

It gives me immense pleasure to place in your hands the thoroughly updated and revised edition of REC Internal Audit Manual.

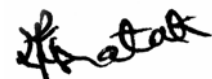


After the release of the first version of this manual in 2003, REC has grown manifold in terms of the size of business, balance sheet and operational practices. This, together with the contemporary professional environment makes it imperative to update Internal Audit resources in line with the frequent changes in statutes and regulations. In this background, the release of this version of the Manual, shall enable Internal Audit to move from 'transactional audit' to 'system and risk based audit' thereby emerging as a strong partner in the growth of the company and enhancing shareholders value.

The timely publication of the manual has been possible due to untiring contributions made by the officers and staff of Internal Audit Division. I am confident that this Manual would be very useful to Internal Audit Division as well as Operational Divisions i.e. Auditee Units.

New Delhi

Dated: 25.10.2010



J.M Phatak
Chairman & Managing Director

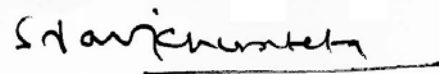
FOREWORD

Since the incorporation of REC under the Companies Act in 1969, it has come a long way from the initial mandate for pump-set energisation and rural electrification to the current business portfolio which covers the entire power infrastructure chain including power Generation, Transmission and Distribution including financing projects being set up by the private sector.



Thus REC's activities have enlarged both qualitatively and quantitatively with major operations being now on ERP. It is a natural corollary then, that an organisation with such large scale of operations and pan India footprint, should have well structured mechanism to continuously verify and strengthen internal control mechanism. The Internal Audit Division operated as per procedures stipulated in Internal Audit Manual (2003). However, in view of various amendments in the Companies Act 1956, statutory provisions relating to Accounting Standards, new versions of standards, Standard of Auditing issued by the Institute of Chartered Accountants of India (ICAI) etc, and also because of diversification of activities of REC, the revision of the audit manual had become inevitable.

Accordingly, Internal Audit Division has revised the manual, incorporating various current practices of industry, including various statutory provisions in audit checklists and widening the scope of audit, in an ERP environment, with a view to enable continuous evaluation of operations and internal controls in REC. I am sure that revised manual will help in further strengthening of internal audit leading to improvement in operational efficiency and overall growth of the Corporation.



New Delhi

H.D. Khunteta
Director (Finance)

Dated: 25.10.2010

Acknowledgements

Excellence is a journey and not a destination. In that sense, the current version of the Internal Audit Manual will serve as a major milestone in the continued efforts of the Internal Audit Division in laying down the processes for system and risk based internal audit. This is expected to further improve the working of Internal Audit thereby contributing more effectively in growth of the company and enhancing stakeholders' confidence and value.

My sincerest gratitude is to the Board of Directors REC, Audit Committee, Chairman & Managing Director, Director (Finance), Director (Technical) and my predecessor Shri B.P.Yadav, Executive Director REC, for providing valuable directions, guidance and suggestions in updating this manual.


I would also like to thank the various Heads of Divisions (HoDs), ZMs/CPMs for providing information about their respective divisions/units and the assistance extended in preparation of checklists which made this manual possible. I shall be grateful for any further updates, changes in practices etc which may be forwarded to Internal Audit Division for suitable incorporation in next edition of the manual.

My special thanks to entire Internal Audit team and specially to Shri Rajesh Kumar, Chief Manager and Ms Nidhi Garg, Senior Officer for their excellent support in finalization of this manual.

Last but not the least, my thanks to Accounting Research Foundation of the Institute of Chartered Accountants of India for vetting this manual and making it a comprehensive reference document for conducting internal audit in REC.

New Delhi

Dated: 25.10.2010


Rakesh Kumar Arora
(HOD, Internal Audit)

CHAPTER-1

INTRODUCTION

Although internal to the organization, internal auditing is an important tool for providing relatively independent view to the management, with objective assurance and designed to add value so as to bring about improvement in the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes . The Institute of Chartered Accountants of India defines Internal Audit as:-

"Internal Audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system".

In REC, the Internal Audit Division was initially set up during September, 1970 as part of Finance Division which was recognized as Separate Division on direction of Board of Directors during September,1995 In the beginning, the Division was involved in pre-audit of payments, personnel issues, pay related payments etc. The first internal audit manual was introduced during the year 2003.

Considering the increased size of business and listing of company with stock exchanges, a need for revision of manual was felt. This manual is a step towards that direction.

1.1 Need for Internal Audit

➤ Increased size and complexity of businesses

Due to increased size and business of REC, it dilutes direct management oversight on various functions, necessitating the need for a full time, independence and dedicated team to review and appraise operations.

➤ **Focus on risk management and internal controls to manage them**

Internal auditors can carry the job in a more focused manner by directing their efforts in the areas where there is a greater risk, thereby enhancing the overall efficiency of the process and adding value with the same set of resources.

➤ **Intensive use of Information Technology**

Information Technology (IT) is invariably embedded in all the spheres of activities of a modern business enterprise today, from data processing to resource planning. REC has also implemented ERP (Oracle) for various business functions e.g. loan accounting, compilation of accounts, pay etc. Use of IT has, however, increased the threat of data thefts or losses on account of system failure or hacking/ espionage, as well as the need to comply with the cyber laws, etc. The internal audit can also take care of this aspect during audit to some extent.

1.2 Internal Audit - Statutory Provisions

Various statutory requirements of having Internal Audit in the organization are:

➤ **Clause 49 of the Listing Agreement**

The Securities and Exchange Board of India (SEBI) has introduced certain mandatory as well as certain recommendatory corporate governance provisions in clause 49 of the Listing agreement applicable to listed entities. Requirements of clause 49 pertaining to internal audit are as follows:

- Reviewing with the management, the external and internal auditors' adequacy of the internal control systems.
- Reviewing the adequacy of the internal audit function, including the structure of the department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.

- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- Reviewing the company's financial and risk management policies.

➤ **Section 292A of the Companies Act, 1956**

Section 292A of the Companies Act, 1956, requires public companies having paid up capital not less than Rs. 5 crore to constitute a committee of the board i.e. the Audit Committee.

The requirements under Section 292A, relating to interaction of the Audit Committee with the internal auditors and their involvement in ensuring that effective controls are in place are given below:

- The Audit Committee should have discussions with the auditors periodically about the internal control systems, the scope of audit, including the observations of the auditors and review the half-yearly and annual financial statements before these are submitted to the Board and also ensure compliance of internal control systems.
- The Audit Committee shall have authority to investigate any matters in relation to items specified in this section or referred to it by the Board, and for this purpose, shall have full access to the information contained in the records of the company and external professional advice, if necessary.
- The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee. However, they shall not have the right to vote.

➤ **Companies (Auditor's Report) Order, 2003**

The Central Government, in terms of the power vested under Section 227 (4A) of the Companies Act, 1956 had notified the

Companies (Auditor's Report) Order, 2003. Clause (vii) of the said 2003 order requires the auditor to report as follows:

"whether in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs. 50 lakh as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business."

Though the clause does not by itself mandate internal audit in the subjected companies, yet a company to which the same is applicable, would incur a negative remark from the auditor if it does not have an internal audit system.

1.3 Objectives of Internal Audit

The objective of Internal Audit in REC is to assist members of management at all levels in the effective discharge of their responsibilities by furnishing them weaknesses of internal control system along with relevant analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. Any possible improvement in economy, efficiency or effectiveness of business activity of the Corporation is the concern of the Internal Auditor.

Internal Auditor is expected to go beyond the accounting and financial records, and obtains a full understanding of the operations under review. Reviewing and appraising the soundness, adequacy and application of accounting, financial and other operating controls, as well as promoting the effective control at reasonable cost should be seen by the Internal Auditor for attaining the overall objective stated above. For discharge of these duties Internal Audit team can be multifunctional.

According to Standard on Internal Audit (SIA) - 1, the overall objectives of an internal audit, as defined in the Preface to the Standards are

- To suggest improvements to the functioning of the entity; and

- To strengthen the overall governance mechanism of the entity, including its strategic risk management as well as internal control system.

Internal control is an integral part of corporate governance and thus internal auditors are important players in the field of corporate governance. Internal auditors, in their assessment of risk management and internal control, largely focus on the essential dimensions of corporate governance.

Objective of Internal Audit is systematic evaluation of the REC's operations and controls to determine if:-

- Financial & Operating information is accurate and reliable.
- Risks are identified and minimized.
- External regulations and internal policies and procedures are followed.
- Standards are met satisfactorily.
- Resources are used efficiently and economically.
- Organizational objectives are effectively achieved.
- Existence of sufficient internal controls.

1.3.1 Areas of Contribution

The auditors can contribute in the following ways:

Risk assessment: The auditor shall be required to give an opinion on whether all risks likely to be faced by the organisation are evaluated and adequate steps initiated by the management to mitigate the risks.

Controls opinion: The auditors shall comment on whether the design of the controls will help achieve the entity's objectives and on whether the internal controls structure is adequate.

Strategy Evaluation: The auditors can contribute in the area of strategy formulation and monitoring implementation, through a validation process that will ensure that the underlying assumptions and facts presented to the board are reliable.

Value Addition: Current theory postulates value addition to the stakeholders of the company. Internal auditors with their objectivity, expertise, resources to benchmark and transfer best practices can

highlight areas of improvement, which can add value to the operations of the Company.

Accuracy of MIS: The internal audit function could also ensure that data and reports that are circulated to the directors and tabled at the board meetings are factually correct and that generally accepted methodologies are used in preparing the reports.

1.4 Scope of Internal Audit

The scope of internal auditing includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing the adequacy of systems established to ensure compliance with those policies, plans, procedures, laws, rules, and regulations, which could have a significant impact on operations.
- Appraising the economy and efficiency with which financial/ other resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing the correctness of financial statements / compliance with prevailing accounting standards.
- Reviewing the means of safeguarding assets as appropriate.
- Appraise of the quality of performance in carrying out the responsibilities assigned to functional departments, and to recommend operational improvements, in order to achieve corporate goals.
- Analyzing opportunities
- Assessing economy, efficiency and effectiveness of resources.
- Raising issues based on the sound analysis of facts and figures to the management to take final view.

While a pre-defined scope for an auditor's work at the micro level is

difficult to draw, a better way of dealing with it is to indicate the broad areas where audit can be conducted. This will incidentally allow discretion to the team in charge to concentrate on the important points that come up during the audit and accordingly set the exact course of action.

1.5 Code of Ethics of Internal Auditor

A code of ethics becomes necessary for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

As also stated in Standard on Internal Audit (SIA)-2, Basic Principles Governing Internal Audit, Internal auditors are expected to apply and uphold the following principles:

a) Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. For the principal of integrity, Internal Auditors are expected to observe following rules of conduct:-

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the organization.

b) Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors are expected to make a balanced assessment of all the relevant

circumstances and are not unduly influenced by their own interests or by others in forming judgments. For the principal of objectivity, Internal Auditors are expected to observe following rules of conduct:-

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- Shall not accept anything that may impair or be presumed to impair their professional judgment.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

c) Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. For the principal of confidentiality, Internal Auditors are expected to observe following rules of conduct:-

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

d) Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. For the principal of competency, Internal Auditors are expected to observe following rules of conduct:-

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.

- Shall continually improve their proficiency and the effectiveness and quality of their services.

1.6 Responsibility of Internal Auditor

According to Standard on Internal Audit (SIA) 9 - Communication with management, the internal auditor while performing audit should:

- a) Communicate clearly the responsibilities of the internal auditor, and an overview of the planned scope and timing of the audit with the management;
- b) Obtain information relevant to the internal audit from the management;
- c) Provide timely observations arising from the internal audit that are significant and relevant to their responsibility as described in the scope of the engagement to the management; and
- d) Promote effective two-way communication between the internal auditor and the management.

The above will facilitate in the following:

- a) Providing information to management on areas deserving improvement and better control.
- b) Effective co-ordination with functional management at different levels to best achieve audit objectives, and the objectives of the organization.

However, Internal Audit has neither direct responsibility for any of the activities reviewed, nor does it have any direct authority over any of functional management, except the internal audit function.

Internal Audit review and appraisal do not relieve other officials in REC of their functional responsibilities. In other words, basic responsibility for compliance with applicable guidelines / circulars, establishment of desired adequate internal control systems remains with the concerned head of the divisions / office.

Internal Audit has full access to all records, properties and

personnel relevant to the subject under review. It is free to review and appraise policies, plans, procedures and records.

1.7 Accounting System and Internal Controls

Operational Division is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. The Internal auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance. It is required that assurance for existence of adequate controls is furnished by the auditee divisions (operational divisions) to internal auditors which will assist in assessing existence of desired controls in the concerned auditee division.

The Internal auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of the audit procedures.

1.8 Status of Internal Auditor within REC

Independence is essential for the effectiveness of Internal Auditing. Independence is obtained primarily through appropriate organizational structure and objectivity in reporting.

Organizational status of auditing function and the support accorded to it by the management determine its range and value. Head of Internal Audit Unit should, therefore, be responsible to an officer whose authority is sufficient to assure both a broad range of audit coverage and adequate consideration and effective action on the audit findings and recommendations.

Objectivity is essential to audit function. Therefore, internal auditor should not develop and entail procedure or engage in any other main operational activity which he would normally be required to review and appraise and which could reasonably be construed to compromise his independence.

To ensure independence, the Head of Internal Audit Division reports to Chairman & Managing Director directly.

1.9 Relationship with External Auditor

Objectives of Internal Audit may differ from that of the external auditor, who is appointed to report independently on financial information. Nevertheless, some of the means of achieving their respective objectives are often similar. Being part of the organisation, internal audit function cannot be expected to have the same degree of independence as external audit.

However, External Auditor or Statutory Auditor derives confidence in the systems and internal controls on the basis of Internal Audits Reports. Therefore, Internal Audit Reports should promptly be made available to external/statutory auditor.

1.10 Audit Materiality

A key issue for internal audit to address is that of 'Materiality', i.e. the significance of the issue to the organization. There is no standard quantitative definition of materiality but it is a matter of judgment about relative significance or importance of a particular matter in the context of organisation as a whole. A matter is material if its omission would reasonably influence the decision of an addressee of the auditor's report. International Accounting Standard Board also added that materiality depends on the size of the item or error judged in the particular circumstances of its omissions or misstatements. Thus materiality provides a threshold or cut off point rather than being primary qualitative characteristics which information must have if it is to be useful.

Thus, the auditor must determine materiality before qualifying whether the observation falls under significant audit observation or not.

1.11 Risk Management and Internal Auditing

A new paradigm has emerged where the focus is on “risk”. Risk based auditing makes the internal auditors think and talk about risks and countervailing controls. In the new approach, the auditor is concerned with identification of risks and developing plans to avoid,

diversify, share, transfer, control or accept the risk. This is a very proactive and broad based approach that turns focus to the present and the future. The auditor deals with the obstacles that could be faced by the management in the future. Hence, this adds immense value to the audit process.

According to Standard on Internal Audit (SIA) 13- Enterprise Risk Management, the Enterprise Risk Management process consists of Risk identification, prioritization and reporting, Risk mitigation, Risk monitoring and assurance. Internal audit is a key part of the lifecycle of risk management. The risk function establishes the policies and procedures, and the assurance phase is accomplished by internal audit.

The scope of the internal auditor's work in assessing the effectiveness of the enterprise risk management would, normally, include:

- a) assessing the risk maturity level both at the entity level as well as the auditable unit level;
- b) assessing the adequacy of and compliance with the risk management policy and framework; and
- c) for the risks covered by the internal audit plan:
 - i. Assessing the efficiency and effectiveness of the risk response; and
 - ii. Assessing whether the score of the residual risk is within the risk appetite.

1.11.1 Audit Decisions aided by Risk Assessment

Risk assessment is normally undertaken to identify significant audit areas, to allocate audit resources to the most important audit areas and to help prioritise key audit decisions such as audit frequency, intensity and timing. According to Standard on Internal Audit (SIA) 13- Enterprise Risk Management, the internal audit plan, which should be reviewed by the audit committee, should be based on risk assessment as well as on issues highlighted by the audit committee and senior management. The risk assessment process should be of

a continuous nature so as to identify not only residual or existing risks, but also emerging risks. The risk assessment should be conducted formally at least annually, but more often in complex enterprises. To serve this objective, the internal auditor should design the audit work plan by aligning it with the objectives and risks of the enterprise and concentrate on those issues where assurance is sought by those charged with governance.

Some of the decisions that are facilitated by Risk Assessment are:

➤ **Audit frequency**

In REC, the frequency of auditing a unit will depend upon the risks inherent in the operations of the unit and shall be reviewed from time to time.

To prevent over-auditing or under-auditing of some units, the auditor should either monitor the auditable units continuously or at specified intervals. Audits should be scheduled when units exhibit deterioration in any key parameter. Abnormal activity could also be an indicator of control failure. If the auditor monitors relevant indicators, he may be alerted to problems of non-compliance with internal controls and likely deterioration.

➤ **Audit Intensity**

Units that are perceived to be more risky should be audited with more intensity. This intensity can be in the form of frequency of audit, sample sizes, seniority of audit staff, skill, etc.

➤ **Audit Timing**

Audit department have limited resources and allocation of resources is an important factor. Other things being equal, riskier units should be audited sooner than less risky units. However, such a simple application is rarely possible due to various constraints like availability of personnel, management requests, etc.

➤ **Size of Audit Department**

A fundamental principle of an internal audit department is that its size and capability should address the concerns of the

management. If risk factors reflect management concerns, then they can be used as a basis for establishing the department.

1.11.2 Putting the Risk Paradigm to work

In the risk based auditing approach, the internal auditor considers the same risks to achieving the goals established by the organisation and what the management is doing to mitigate these risks. The audit consists of the tests of these mitigation activities including a test of the internal controls but is not limited to it. Thus, risk based auditing starts and ends with consideration of the business risks. Internal control is a major part of risk mitigation. Internal auditors should recommend appropriate controls and risk mitigation procedures. Risk based internal auditing involves the following processes:

- Listing the process steps, tasks, or components of the system.
- Ranking the processes in order of their criticality in achieving the unit's goals and objectives.
- The following questions should then be answered for each process in the system:
 - What is the risk? What can go wrong?
 - What are the risk management activities or controls that mitigate the risks?
 - What is the best evidence that these mitigation steps are working as desired?

To be able to reply to the above mentioned questions and frame an opinion on the existence of adequate risk mitigation controls, the auditor needs to conduct risk assessment and then review the steps taken by the management to mitigate the risks.

The first phase of risk assessment is to identify and catalog the auditable activities. Auditable activities consist of those subjects, units or systems which are capable of being defined and evaluated. These may include:

- Policies and procedures
 - Major contracts
 - Cash and bank disbursements
 - Collections
 - Statutory compliances
-

The risk factors are the criteria used to identify the relative significance of and the likelihood that conditions and/or events may occur that could adversely affect the organisation. Risk factors include:

- Competence and integrity of personnel
- Asset size
- Liquidity
- Financial and economic conditions
- Impact of government regulations
- Technological changes
- Geographic dispersion of operations

1.12 Quality Assurance in Internal Audit

According to the Standard on internal Audit (SIA) 7-Quality Assurance in Internal Audit:

Quality assurance can be achieved in Internal Audit by undertaking the following activities:

- Developing an internal audit manual clearly defining the specific role and responsibilities, policies and procedures, documentation requirements, reporting lines and protocols, targets and training requirements for the staff, internal audit performance measures and the indicators.
- Ensuring that the internal audit staff at all levels is appropriately trained and adequately supervised and directed on all assignments.
- Identifying the customers of the internal audit activity.
- Establishing a formal process of feedback from the users of the internal audit services, such as the senior management executives, etc.. The responses received from the users of the internal audit services should also be shared with the appropriate levels of management and those charged with governance.
- Establishing appropriate performance criteria for measuring the performance of the internal audit function. In case the internal audit activity is performed by an external agency, the contract of the engagement should contain a clause for establishment of

performance measurement criteria and periodic performance review. These performance measurement criteria should be approved by the management.

- Identify and benchmark with industry/ peer group performance.

1.12.1 Internal Quality Review

The internal quality review framework should be designed with a view to provide reasonable assurance to that the internal audit is able to efficiently and effectively achieve its objectives of adding value and strengthening the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. The internal quality reviews should be undertaken on an ongoing basis.

1.12.2 Quality of Internal Audit work

According to the Standard on Internal Audit (SIA)- 7, Quality Assurance in Internal Audit, a system for assuring quality in internal audit should provide reasonable assurance that the internal auditors comply with professional Standards, regulatory and legal requirements, so that the reports issued by them are appropriate in the circumstances. A few performance parameters that can be adopted for evaluation are defined below:

- Audit findings: An important criteria for evaluation is the quality, materiality, relevance, etc. of the audit findings presented by the auditor in his audit reports.
- Early Warning Signals: The auditor can be expected to provide advance information regarding unfavourable impacts, which are likely to affect the operations of the organisation.
- Good Practices Feedback: Feedback given by the auditors regarding the good practices being followed at the audit locations which are critical and which can result in operational efficiencies when implemented, at other locations, shall be always appreciated.

- Accuracy of findings: The data reported by the auditor should not have any mistakes or erroneous calculations. All the statements made in the report should have been supported by adequate supporting data, whether in the body of the Report or as part of his working papers.
- Quality of Recommendations: Practicality and possibility of implementing the recommendations made by the auditor should be assessed. Recommendations of cost rationalisations, business process improvements, process modifications to prevent malafide transactions, etc. will always be encouraged.
- Timeliness: Adherence to the audit schedule and timely submission of the reports shall form a very important criterion for evaluation.

1.12.3 External Quality Review

External quality review is a critical factor in ensuring and enhancing the quality of internal audit. The frequency of the external quality review should be based on a consideration of the factors such as the maturity level of the internal audit activity in the entity, results of the earlier internal audit quality reviews, feedbacks as to the usefulness of the internal audit activity from the customers of the internal audit, costs vis a vis perceived benefits of the frequent external reviews. The frequency should not in any case be less than once in three years. The external quality reviewer should discuss his findings with the person entrusted with the responsibility for the quality in internal audit.

1.13 Fraud Detection

According to Standard on Internal Audit (SIA) 11- Consideration of Fraud in an Internal Audit, an internal auditor should use his knowledge and skills to reasonably enable him to identify indicators of frauds. Although, normally, an internal auditor is not expected to possess skills and knowledge of a person expert in detecting and investigating frauds, he should, however, have reasonable knowledge of factors that might increase the risk of opportunities for frauds in an entity and exercise reasonable care and professional skepticism while carrying out internal audit.

The internal auditor should carefully review and assess the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report and suggest remedial action. However, in case the internal auditor comes across any actual or suspected fraud or any other misappropriation of assets, he should immediately bring the same to the attention of the management.

The internal auditor should document fraud risk factors identified as being present during the internal auditor's assessment process and document the internal auditor's response to any other factors. If during the performance of the internal audit fraud risk factors are identified that cause the internal auditor to believe that additional internal audit procedures are necessary, the internal auditor should document the same.

According to RBI circular reference no. RBI/ 2010-11/22 DNBS.PD.CC.NO.182 /03.10.042/2010-11 dated July 1, 2010, NBFCs are required to report all frauds, actual or suspected, to RBI in the format FMR I, 2 and 3. Every NBFC is required to nominate an official of the rank of General Manager or equivalent who will be responsible for submitting all the returns referred to in this circular. All the frauds involving an amount of Rs 25 lakh and above should be monitored and reviewed by the Audit Committee of the Board (ACB) or if ACB is not there, other Committee of the Board of NBFCs. The periodicity of the meetings of the Committee may be decided according to the number of cases involved. However, the Committee should meet and review as and when a fraud involving an amount of Rs 25 lakh and above comes to light.

1.13.1 Internal Controls

Internal controls are very important especially in the deterrence of fraud. Establishment of an adequate internal control system is the responsibility of the management. An auditor is not responsible for setting up of the internal controls. His role is of review and recommendation. Similarly, detection of fraud is not his primary responsibility. During his usual audit process, an auditor must keep an open eye to identify deficiencies in the control system. He must also be alert to the proper functioning of the control system and to see that the controls are not being circumvented by the employees.

The responsibility to prevent fraud lies primarily with the management who should make sure that a robust control system is in place and is actually working in the manner it was intended to. The management is also responsible to create a culture that promotes honesty and integrity and discourages unethical behaviour by its employees. Such an environment itself may deter some persons from committing fraud. The responsibility of the management will include:

- Organisation structure to have clear lines of authority and responsibilities
- Open communication lines from top management to the levels below and vice versa
- Division of labour such that no single person handles a full transaction
- Reconciliation procedures are established and work effectively
- Appropriate supervision at all levels
- Information systems to be such that they would trigger alarm bells in case of excessive exposure to risks
- Code of conduct and ethics to be formulated and circulated among all employees of the organization

Some examples of internal controls to deter fraud are –

- Segregate function of responsibility and record keeping
- Appropriate supervision and cross-verification of data
- Restriction on unauthorised access to assets
- Reconciliation of records across various sources of information
- Access controls depending on the job requirements of employees
- Rotation of personnel in jobs every few years

Unfortunately, existence of a robust control system is not tantamount to a complete safeguard against fraud. Internal controls tend to get lax over time and practice. In case of collusion, the persons involved can circumvent the system to commit fraud, which would be more difficult to detect. There is also a cost element in setting up a comprehensive system which could be a reason for its limited coverage.

In order to have uniformity in reporting, frauds have been classified as under based mainly on the provisions of the Indian Penal Code:

- a) Misappropriation and criminal breach of trust.
- b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
- c) Unauthorised credit facilities extended for reward or for illegal gratification.
- d) Negligence and cash shortages.
- e) Cheating and forgery.
- f) Irregularities in foreign exchange transactions.
- g) Any other type of fraud not coming under the specific heads as above.

1.13.2 Auditors' Role and Responsibilities

While it is true that given the size and complexity of the business processes, it is impossible for any auditor to cover every area in detail in search of existence of fraud, it is also true that the auditor can play an important role in prevention and detection of fraud.

During the conduct of internal audit, the auditor not only needs to assess the risk profile of the business but also review the adequacy or otherwise of the internal control structures. According to Standard on Internal Audit (SIA) 12 - Internal Control Evaluation, the Internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness. In doing so, the auditors are in a position to identify the high risk areas which are vulnerable to fraud. It is impossible to tell whether this prevents fraud but it certainly helps in putting in place the necessary preventive measures.

As per SIA 12, the role of the internal auditor is to review the adequacy and recommend modifications in the internal control systems which have been formulated and implemented by the management of an organisation and in doing so; the auditor is responsible for the deterrence of fraud. The responsibility of an auditor for failure to detect fraud arises only when such failure is a result from non-compliance with generally accepted auditing standards, or from negligence in the performance of his duties.

The responsibility of an internal auditor in relation of fraud lies in the following three areas –

- Responsibility while conducting routine audit – be alert to opportunities, such as control weaknesses, that could allow fraud. If significant control weaknesses are detected, additional tests should be conducted.
- Responsibility on detecting fraud – evaluate the indicators that fraud might have been committed and decide whether any further action is necessary or whether an investigation should be recommended.
- Investigating Fraud – Once it has been established that fraud has been committed, the management may ask the internal auditor to extend his examination to cover the incident.

1.13.3 Fraud Indicators

Although it is not the primary responsibility of an auditor to detect fraud, he should be aware of the possible areas where fraud could be committed. He should be able to identify indicators and control weaknesses which signal the existence of fraud. He should be able to determine whether a detailed investigation is necessary. Internal auditors are not expected to investigate existence of fraud during routine audit. It also does not guarantee that if the audit has been carried out with due professional care, fraud will be detected. Some examples of situations where an auditor must be wary of the possibility of fraud are as follows:-

- Where managers do not have a positive reputation
- Where managers are not co-operative, overly egotistic, and not willing to work with others
- Where unreasonable objectives have been set for realisation.
- Where there is a tendency to obtain desired results at all costs. Undue pressure is placed on personnel to achieve goals
- Where there is an impression that anything less than extraordinary results would be considered disappointing
- Where a divisional project is experiencing unusual profits, growth, or losses

1.13.4 Methods of manipulating information

The auditor should ensure that his audit program covers all known areas of manipulation. A few examples are given below:

- Unusual and significant transactions especially at the year end
- Recording amounts received or expected to be received in the next accounting period as being received in the current period.
- Recording expenses as acquisitions of property, plant, and equipment to delay recognizing the entire immediate expense.
- Reducing or delaying depreciation.
- Not recognizing or disclosing contingent liabilities.
- Recording an expense as a prepaid expense, an asset with a usefulness extending beyond the end of the current fiscal year, thereby reducing or delaying current period charge-off to future periods.

Given below are some red flags / danger signs pointing towards the possibility of fraud being committed by an employee. The management as well as the auditor should be alert in case of existence of any such situation –

- Continuing failure to correct internal control weaknesses pointed out in earlier audits
- Problems in obtaining appropriate audit evidence
- Incomplete files and incomplete documentation
- Independent confirmations from third parties reveal differences in the account balance
- Difference in trial balance
- Bank reconciliations not completed properly
- Rewriting records under the pretext of neatness in presentation
- Giving unreasonable explanations to questions or getting annoyed at reasonable questions

1.13.5 Identification of Fraud

An auditor may come across an indicator at any stage of audit. He may suspect that something is wrong at the time of preliminary survey when he is gathering information about the auditee division/office. It could be at the time of interviewing staff or managers or even during casual interaction with them. Some of the indicators are –

- A formal schedule of authority does not exist.
- Policies, procedures, reports and such other mechanisms are nonexistent to monitor activities to safeguard the assets of the company.

- Employee turnover is unusually high in any particular department or within a broad authority level, such as mid- or upper-management.
- The company has a history of changing audit firms, has recently changed audit firms, or has had disputes with its auditors.

1.13.6 Ratio Analysis

The auditor may also utilise the tool of ratio analysis to identify indicators. The auditor must analyse changes in the financial statements, account balances and ratios between two accounting periods. According to Standard on Internal Audit (SIA) 6 - Analytical Procedures, The internal auditor should apply analytical procedures as the risk assessment procedures at the planning and overall review stages of the internal audit to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, in the information subjected to internal audit. Some of the ratios which could be indicative of fraud are –

- Current assets compared to current liabilities.
- Reserve for uncollectible receivables compared to receivables.
- Cash plus cash equivalent current assets compared to current liabilities.
- Total debt compared to total assets.
- The auditor must also compare the financial statements with other sources of the same information. For example income tax return will provide comparable data

The audit team, after gathering basic details of the suspected fraud, should inform the appropriate level of management. It should then be the prerogative of the management to decide the future course of action.

The management may decide to conduct an investigation on their own or may ask the internal auditor to conduct a detailed examination and report his findings alongwith the financial impact of the fraud. The auditor must study the method in which the fraud was committed and ensure that his audit program is revised to include such examinations which would detect fraud of a similar nature in future.

1.13.7 Investigating Fraud

Once it is suspected that a fraud is being committed by someone within the organisation, the investigation should start immediately. Before the persons involved suspect of detection of their activities, they should be transferred to other duties. This would not only stop the theft but also ensure that they do not destroy the evidence. Speed as well as thorough investigation is a crucial factor in such cases.

While investigating fraud, an internal auditor must—

- Determine the nature of fraud and the resources required to investigate effectively. If the necessary skills are not available, services of other experts must be sought.
- Once the investigation is complete the auditor must issue a report. This report must be a confidential report and the distribution of the report should be restricted to the head of internal audit and such other persons as instructed by him. If the investigation is a lengthy and time consuming one, an interim report may be issued. The final report must include:
 - Summarised findings that serve as the basis of the decision
 - Method of fraud
 - Names of the persons involved
 - List of records and transactions involved in the fraud
 - Specific dates and amount of each defalcation
 - Total loss sustained
 - State the weaknesses in the internal controls
 - Recommend corrective action to be taken to prevent fraud in future.

1.14 Measuring the value addition of Internal Audit towards Organizational Performance

Evaluating the benefits of Internal Audit function is desirable both from the view points of the management as well as the Internal Auditors. While the management should be assured of the proper utilisation of resources for internal audit work, the internal auditor needs self analysis for improving future audit performance. Though all the services of internal audit are not amenable to

quantification, yet an approach to measure the audit performance may be made, which is explained in the following paragraphs.

The performance of audit can be broadly classified into the following categories:

a) Quantifiable Aspects

- i. Savings due to reduction in expenditure
- ii. Increase in income
- iii. Recommended recoverable
- iv. Savings due to fraud detection

b) Non-quantifiable Aspects

- i. Change in policies/controls/guidelines on recommendation of Internal Audit.
- ii. Better internal control.
- iii. Better compliance with statutory rules, regulations, systems and procedures.
- iv. Increased confidence and satisfaction of stakeholders.

The value addition as above may be informed by Internal Audit Division to the management through internal audit reports, Quarterly Progress Report or any other mechanism developed from time to time.

CHAPTER-2

ANNUAL AUDIT PROGRAMME

2.1 Audit Planning

According to the Standard on Internal Audit (SIA) 1-Planning an Internal Audit, the internal audit plan should be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation.

An internal audit charter is an important document defining the position of the internal audit vis-à-vis the organisation. The internal audit charter also outlines the scope of internal audit as well as the duties, responsibilities and powers of the internal auditor(s).

The Charter of the internal auditing activity is a formal written document that defines the internal auditing activity's purpose, authority, and responsibility. The charter should

- (a) Establish the internal auditing activity's position within the organization;
- (b) Authorize access to records, personnel, and physical properties relevant to the performance of engagements; and
- (c) Define the scope of internal auditing activities.

An internal audit plan is a document defining the scope, coverage and utilisation of internal audit resources, including time required for an internal audit over a defined period say on annual basis. Adequate planning ensures that appropriate attention is devoted to significant areas of audit, potential problems are identified, and that the skills and time of the staff are appropriately utilised. The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the overall objectives of an internal audit.

Planning is however a continuous exercise. A plan once prepared should be continuously reviewed by the internal auditor to identify any modifications required to bring the same in line with the changes, if any, in the audit environment. The annual plan is to be intimated to the Audit Committee for review.

Also, according to the Standard on Internal Audit (SIA) 1, internal audit plan should cover areas such as:

- Obtaining the knowledge of the legal and regulatory framework within which the entity operates and also knowledge of the entity's accounting and internal control systems and policies As per Standard on Internal Audit (SIA) 15 - Knowledge of entity and its environment, In performing an internal audit engagement, the internal auditor should obtain knowledge of the economy, the entity's business and its operating environment, including its regulatory environment and the industry in which it operates, sufficient to enable him to review the key risks and entity-wide processes, systems, procedures and controls.
- Determining the effectiveness of the internal control procedures adopted by the entity. As per Standard on Internal Audit (SIA) 12 - Internal Control Evaluation, The Internal auditor should examine the continued effectiveness of the internal control system through evaluation and make recommendations, if any, for improving that effectiveness.
- Determining the nature, timing and extent of procedures to be performed.
- Identifying the activities warranting special focus based on the materiality and criticality of such activities, and their overall effect on operations of the entity.
- Identifying and allocating staff to the different activities to be undertaken.
- Setting the time budget for each of the activities.
- Identifying the reporting responsibilities.

2.2 Audit Program and Purpose, Scope and Contents

To plan the work programme with the available manpower resources.

- a) Acquainting staff about the scope, objectives and steps of an audit.
- b) Assigning and distributing the work and establishing responsibility among the auditors working on the assignment.
- c) To enable the Internal Auditors to assess the progress of work achieved against work planned, so that they may report on

this to the HOD/ IA.

- d) Providing a check against omission of necessary procedures and providing a means of ensuring that a comprehensive review of the core set of expected controls for all operations is performed.
- e) To enable the Internal Auditors to carry out the audit work as per mandate.
- f) Timely intimation of Internal Audit schedule to the auditee divisions/units.
- g) Compliance of the annual audit programme as approved and reviewed by the Audit Committee.

2.2.1 Audit Programme- Scope, timing and frequency

According to the Standard on Internal Audit (SIA)- 8, Terms of Engagement, the internal auditor and the auditee should agree on the terms of the engagement before commencement. The agreed terms would need to be recorded in an engagement letter. Normally, it is the responsibility of the internal auditor to prepare the engagement letter and it is to be signed both by the internal auditors as well as the auditee.

The terms of engagement should be approved by the Board of Directors or a relevant Committee thereof such as the Audit Committee or such other person(s) as may be authorised by the Board in this regard. The terms should be reviewed by the internal auditor and the audit committee periodically and modified suitably, if required, to meet the changed circumstances.

Annual programme of audit specifying the areas to be covered by internal audit teams during the ensuing financial year shall be prepared in the month of March / April every year and approval shall be obtained from the Chairman & Managing Director. The head of Internal Audit Unit will review frequency of audit at the beginning and shall submit the annual programme, which will depend on the following factors:

- Considering the operational and financial risk, auditee unit shall be identified for extent and frequency of audit (Risk-based units identification)

- Manpower/Parties availability with the Internal Audit Unit and the number of the units outsourced
- Management objectives and directions to the Internal Audit.
- Soundness of Internal control systems.
- Extent of the compliance with the Companies' (Auditor's Report) Order, 2003 as amended from time to time for review by the statutory auditor in the last financial year.
- Specific directions by the Audit Committee / BOD, if any.

While drawing up the annual programme, provision must be kept to meet contingencies like extension of time that may be required for in-depth examination or lack of co-operation from auditee unit to carry out special audit tasks that may be assigned to internal audit.

The annual audit programme as approved and reviewed by Audit Committee would be circulated to all the Divisions / Offices for information so that they could plan in advance and prepare for internal audit. Subsequently monthly audit calendar shall also be issued by the Internal Audit Division. In case of some unexpected urgency / pressures of the work of Auditee / Internal Audit Division, there can be pre or postponement of audit within the month with the approval of the competent authority. However, while taking care of such adjustment, overall time frame / action plan as approved by the Audit Committee must be adhered to. If it considered by HOD of Internal Audit that surprise audit would reveal the defects of the system or slackness on the part of staff in carrying out their day-to-day duties, it could be taken up at any time after taking approval of the competent authority.

In line with the instructions already issued, the HODs of the Auditee units would be required to ensure the availability of all the records/ concerned staff and provide necessary explanations/ information including replies to the audit memos etc. as required by the Internal Audit Team for the timely completion of the Audit assignments and putting up the significant observations of the reports to the Audit Committee on Quarterly basis.

The replies/ comments to the Internal Audit Report would be required to be furnished within a reasonable time but not later

than 15 days from the date of issue of the report. The Audit observations not replied within the stipulated time will be reported to the Audit Committee.

In view of limited resource and proper utilisation of available resource, Internal Audit shall identify exhaustive list of auditee units and earmarked the operations based on risk perceptions. In accordance with directions of the Audit Committee for strengthening of Internal audit by identification of critical areas for risk based audit and frequency of coverage and strengthening of internal controls in certain areas, the various areas have been presently categorised as follows w.r.t. the frequency of conducting audit:

- **Quarterly:** Loan division, Resource division, etc.
- **Half yearly:** Corporate Taxation and accounts, Pay bills and Establishment, Generation division, T&D division, Administration and Estate division, Legal, etc. may be covered on half yearly basis.
- **"Annual" Category-** RGGVY division, HR, Decentralised Distributed Generation, Zonal/Project offices etc. may be covered under this category;
- **"Biennial" Category:** Library, corporate communication, Company Secretariat, IC&D division etc. could be taken with frequency of once in two years.

This is only an indicative list of areas to be audited and may be reviewed every year at the time of preparation and finalization of the Annual Internal Audit Programme.

Pre-audit : In past, pre-audit of payments to parties / employees was a pre-requisite by various organization. Due to increased size of operations and computerization of various activities, pre-audit concepts are not in flavor.

In REC also, certain pre-audits were undertaken by Internal Audit Division like final settlement of retirement benefits of employees i.e. provident fund, gratuity, leave encashment, last salary etc. Various professionals including chartered accountants, cost accountants, MBAs etc have since been recruited in the Corporation and it is felt that required systems are in place, Internal Audit Division may

discontinue pre-audit of such cases. However, Division / Offices itself can introduce counter check / double check for such payments by another officer of their Division / Office. The internal audit team may review these cases during routine audits and can further recommend for strengthening of controls.

However, a specific request of pre-audit in view of due circumstances duly approved by the competent authority shall be taken care by the Internal Audit Division.

2.2.2 Contents of Audit Program

The content of the Audit Program should be divided into four sections as given below:

- **Objectives of the audit:** The objective of the area being reviewed should be stated in the Audit program. These objectives should be achieved through detailed audit program steps.
- **Management Assurance Program:** A well constructed program provides specific, detailed steps for achieving the audit objectives.
- **Time Budget:** A project time budget provides overall guideline for conducting the audit. It enables the Manager to control the audit work in process. The time budget should be framed on completion of the preliminary review. The budget shall include all time necessary from assignment through issuance of the report. For overall control, the time budgets should be broken into the following categories:
 - Planning – initial planning, preliminary survey, etc.
 - Fieldwork – time required for the various audit steps;
 - Audit report and wrap up – audit partner's review, quality assurance review, report writing, report review, etc.

The project time budget should be approved by the audit head. Any revisions in the time schedule should be discussed with the audit head before incorporating in the time schedule. The actual time taken to conduct each audit procedure should be noted

immediately on its completion. This enables a senior on the assignment to review the performance of audit team member by comparing the time actually spent by them on the audit vis-à-vis the budgeted time.

- Referencing the audit work papers: The audit papers should be referred to the audit program step to enable quick and easy reference during review by the senior.

2.2.3 Documentation

Since the audit program is an integral part of any audit, a signed or initialed copy of the audit program should be filed with the audit working papers for each audit performed. The advantages of signing or initialing the audit program steps include:

- Creating a permanent record as to who has performed the audit work;
- Eliminating the possibility of missing an audit step;
- Minimizing the possibility of duplicating the procedures, when more than one auditor is involved in the audit.

2.3 Audit Period

Internal Audit Reports are perused by Statutory Audits and Audit Committee. Therefore, internal audit programme has to be framed in such a manner that all the audits are completed before closing of financial year at least for main operational and finance divisions, so that internal audit reports are available to statutory auditors in time. Hence the coverage of the Audit programme has also been designed from April to March every year so that all the reports of internal audit are available to the Statutory Auditors and Audit Committee in time.

2.4 Audit Staff/Manpower Needs

Internal Audit function is multi disciplinary in view of review of work of various divisions including Finance, Operations, Administration, HR etc. Therefore, the division has to ideally equip itself with multi disciplinary skills i.e. Finance, Technical and General. Accordingly, Chartered Accountant professionals are must for Internal Audit. It is

desirable that Internal Audit should also have professionals from other fields or internal audit division may also use/seek expertise of outside specialized professionals both within and outside REC in the field of engineering, legal, management etc etc for the internal audit assistance where ever required.

The manpower needs shall be examined regularly so that Internal Audit Department could retain sufficient manpower in line with growth of the Corporation. The requirement of manpower based on audit targets and availability position is to be taken care of while making Annual Audit Plan.

The audit team may be a combination of persons selected from within the organisation or from outsourcing of jobs to external experts. Alternatively, in case of select project offices as approved by the competent authority / Audit Committee, the audit assignments can be undertaken by outsourced CA firms. Persons from within the organisation will have knowledge of the policies and procedures, work attitudes and work culture and a broader perspective of the total company operations.

The following factors needs to be considered while selecting staff for audit team:

- **Qualified:** The Internal audit unit should have officers/employees who are qualified in such discipline accounting, finance, money market operation, electronic data processing, taxation and law etc. needed to meet audit responsibilities.
- **Multi Discipline:** Assistance of engineering discipline shall be given to internal audit unit while covering areas which require technical knowledge.
- **Well Conversant:** The audit staff selected for the purpose should as far as possible is conversant with the work of the department which is taken up for audit otherwise audit team should spend time in the beginning of the audit to understand the work of the unit.
- **Rotation:** Staff assignment of internal auditors should be rotated periodically whenever, it is practicable to do so.
- **Proper Training:** The audit staff should be given adequate training through relevant programmes, so as to enable them to evaluate and analyse issues confidently. The HOD, Internal

Audit may also choose to induct experts from within the company for specific audit programs.

Based on the above, the composition and hierarchy of the internal division should be as follows:

Composition:

- Every team should consist of a team leader and three associates. There can be three such teams for audit during the year taking into account the present size and business operations of the REC (corporate office, 18 zonal/project offices, etc.).

Every team should have chartered accountants with additional desirable qualification of CISA/DISA for the systems review. In case, outsourced CA audit team, It shall be ensured that the persons with requisite qualification and experience including of working in the ERP environment are deputed for the assignment and the team leader should be a person with experience in internal audit of Power Sector or of Bank/Financial Institutions.

- Adequate training may be provided to Internal Audit Team members to cope with changing business requirement of REC and to align with current business practices in the Industry.
- A nominated coordinating head within Internal Audit Division would take care of proper implementation of audit programme and timely issue of reports / compliance through various teams.

Hierarchy

- The team members should report to the team leader. The team leader is required to review the completeness of work of the team members and submit the report to the HOD, Internal Audit through nominated coordinating head. All the teams are required to report to the HOD, Internal Audit.

2.5 Internal Audit - Outsourcing

REC may also decide to use outsource personnel for its audit activities. Outsourcing may be for specialised technical audits like legal, engineering, etc. For such assignments, qualified experts from the respective field may be inducted. According to Standard on Internal Audit (SIA) 16 - Using the work of an expert, the internal auditor should obtain technical advice and assistance from competent experts if the internal audit team does not possess the necessary knowledge, skills, expertise or experience needed to perform all or part of the internal audit engagement. Outsourced audit firms, when hired, bring with them:

- **Industry knowledge:** The historical knowledge of an industry's activity, particularly a company's role in it, will enable an internal auditing group to predict with great accuracy the future effects of a company's endeavors. It will also be able to identify investment and revenue leakages
- **Multi-disciplinary experience and strategy:** This will expand the company's internal auditing groups overall core knowledge and also develop a broader concept approach.
- Generally, the outsourced firm shall be necessarily updated on the new techniques and methodologies developed in the professional field, and shall have experience enough to use the right mix of such techniques and methods for effective audit operation.

The outsourced firm can also provide the expertise in an area that may be lacking within the company's own resources.

When an organisation uses services of external experts as well as that of its employees in the Internal Audit department, there should be a continuous and healthy dialogue and discussions between the two sets of auditors. Ideally, they should have an understanding and use similar techniques and methods. This will ensure uniformity and they shall become complementary to each other. This will also help develop a better appreciation of the audit processes by the auditee.

2.6 Outsourcing of audit of selected Project Offices

As directed by the Board of Directors / Audit Committee, considering the overall manpower requirements in the internal audit division and/or requirements of the audit programme, if required, certain areas of work, may be outsourced to the local firms of Chartered Accountants who have adequate experience of conducting Internal Audits of PSUs in Power Sector and / or of Bank / Financial Institutions. The Audit Firm would be normally required to conduct the Internal Audit of the concerned office twice in a year and issue its reports in first fortnight of October and April for consideration of IA Division at Corporate Office. The audits by the outsourced CA firms and / or outside experts wherever undertaken shall be under the overall guidance, direction and supervision of the Internal Audit Division who shall analyse these reports and submit the significant findings to the Audit Committee.

Internal Audit Division will also submit performance appraisal report for the various outsourced agencies to the competent authority for its perusal.

2.6.1 Selection of the Outsourced Firm

The selection of outsourced audit firms can be done based on the following criteria:

- Type of audits to be performed and the technical qualifications required for the job;
- Past performance and reputation of the audit firm. Feedback can be obtained from other companies who are familiar with the work of the concerned firm;
- Resources available with the external firm. It must be ensured that resources in terms of personnel and infrastructure are adequate to enable the firm to carry out their duty judiciously;
- Proximity of the audit firm to the Sites/Regional Offices to be audited.
- In addition to above, subsequent assignment would be subject to review of the performance of the Audit Firm by the Internal Audit Division.

2.7 Flexibility of the Team

The total strength of the Internal Audit Division shall be divided into teams. Each team is allocated with the annual/ quarterly targets. Depending on the nature of work to be audited the team can be reshuffled. This will also give the required output, as the team would be well equipped with the working knowledge of the auditee division. Team and number of members in a team may be decided based on volume of work / inherent risk involved

2.8 Guidelines of various Division/Sections/Project Offices

Based on present work allocation of the various divisions / offices and information provided by the concerned units, guidelines for audit of various Divisions /Sections / Project Offices have been prepared. It is however clarified that these guidelines are only illustrative and may be amended as per the requirement of the Division with the approval of the HOD of Internal Audit whenever necessary. However, these guidelines are not exhaustive, the team is expected to have systems approach on a particular issue rather than concentrative only on pointing out individual lapses.

For outsourced CA firms, an indicative scope of work / items to be verified has also been prepared. However, CA firm based on its experience may add further items on case to case basis.

2.9 Audit Evidence

According to Standard of Internal Audit 10 on Internal Audit, Internal audit evidence is used by the internal auditor to support the facts and opinion contained in his report. The internal auditor needs to evaluate whether he has obtained sufficient appropriate audit evidence for drawing audit conclusion and complete the process of audit.

Factors that affect the evidence required to be gathered are:

➤ Materiality

The kind and amount of evidence required to be gathered is related to the materiality or significance of the item relative to the

auditee division/office's financial position and results of operations. Materiality of an amount depends on:

- the value of total transactions of which the erroneous transaction forms a part
- the corresponding value of the item in the previous years

➤ **Degree of Risk**

The degree of risk involved has an important bearing on the extent of tests. Certain areas, such as, cash receipts, etc., which are more susceptible to irregularities require more extended tests than some other accounts subject to less risk.

➤ **Cost**

There should be some rational relation between the cost of obtaining evidence and the usefulness of the information.

➤ **Timeliness**

An audit cannot go indefinitely. There is normally a deadline which is set and communicated by the auditee division/office. The auditor should prepare his audit plan to ensure that he has sufficient time to gather relevant information.

➤ **Relevance**

Relevance means that evidence must be pertinent to the auditor's objectives. Efforts spent in obtaining irrelevant evidence result in unnecessary expenditure and waste of time. Moreover, such evidence may lead to erroneous conclusions in forming an opinion.

➤ **Past experience**

The auditor's experience with certain transactions in the current year or in the past year may help to determine the extent of future tests of particular items.

➤ **Questionable Items**

Where an item may be questionable or may convey a suggestion of irregularity, additional tests should be made of that item.

➤ **Unusual Items**

In general, unusual items are subject to less control and internal check than routine items. Therefore the auditor will ordinarily

provide additional tests or will scrutinize unusual items more carefully. Considering above issues, Team Leader can decide about extent of key documents need to be retained in audit working file.

2.9.1 Reliability of evidence

The auditor cannot place the same degree of confidence on all evidence. Obtaining sufficient basis for an opinion involves relating the quantity of evidence to be assembled to the reliability of the particular evidence. In some cases, additional evidence must be obtained to corroborate relatively weak forms of evidence. As per Standard of Internal Audit 10 on Internal Audit Evidence the reliability of the internal audit evidence depends on its source – internal or external and on its type. It can be explained briefly as follows:

- Audit evidence from external sources is more reliable than evidence generated internally.
- Audit evidence generated internally is more reliable when the related internal control is effective.
- Audit evidence obtained directly by the auditor is more reliable than evidence obtained from the audit location.
- Audit evidence generated by the auditor is more reliable than evidence received from third parties.

Whenever reliance needs to be placed on management representations, they must be confirmed in writing. In such cases it needs to be ensured that there is no evidence contradictory to representations received from the management.

2.9.2 Types of Audit Evidence

There are various types of evidence, which the auditor may gather during the course of audit. The principal types of evidence are as follows:

- **Oral Evidence**

This is a weak but a useful type of evidence. Oral evidence may be used to supplement documentary evidence. The auditor may also request the concerned person to provide the same information in writing

- **Physical evidence**

The actual physical inspection of assets is the best form of evidencing their existence.

- **Documentary Evidence**

Documentary evidence originating from sources outside the audit location constitutes the most reliable form of documentary evidence. Documentary evidence includes a wide variety of source documents as well as such items as minutes of board of directors or executive committee meetings, lease agreements, various other contracts and bank statements.

- **Financial Accounting Records**

The financial statements are derived from the formal accounting books of record. These include the general ledger and the books of original entry such as the Cash and Bank Book, Journal etc. The general ledger is essentially the foundation of the audit work and an important source of gathering audit evidence.

- **Analytical Evidence**

Another form of evidence is comparison of data between and within time periods. The reliability of analytical evidence depends on the relevance of the comparable data.

- **Independent computation**

Independent computations are the most important source of audit evidence. The basis for the computation made by the Company personnel should be independently interpreted by the auditor.

- **Subsequent Events**

Events which happen post the audit, corroborate the evidence already collected by the auditor.

- **Electronically processed Records**

Data generated by information systems within an organisation is one form of evidence. The extent to which an auditor can rely on the system will depend on his confidence on the internal controls present in the computer program.

The Team Leader may decide about the evidence to be gathered for confirmation of findings considering the importance and materiality of the issue.

2.10 Audit Working Papers

According to Standard on Internal Audit (SIA) 3- Documentation, Internal audit documentation should record the internal audit charter, the internal audit plan, the nature, timing and extent of audit procedures performed, and the conclusions drawn from the evidence obtained. Internal audit documentation should be sufficiently complete and detailed for an internal auditor to obtain an overall understanding of the audit. The internal audit documentation should cover all the important aspects of an engagement viz., engagement acceptance, engagement planning, risk assessment and assessment of internal controls, evidence obtained and examination/ evaluation carried out, review of the findings, communication and reporting and follow up.

The importance and usefulness of good working papers cannot be over emphasized. Proper record of audit notes shall be maintained along with the relevant Audit Reports. Such audit notes shall contain details of points observed, details of documents verified, period considered for test checking dates and contents of discussions held with various officials etc., which may be handwritten. These notes are useful for verification at a future date and for ascertainment of full facts of the case. Photocopies of important key documents may be obtained and kept ready for discussion. Documentary evidence wherever required should be part of working paper file.

2.10.1 Composition of Working Papers

Audit working papers should contain complete record of the audit procedure followed in the examination of the auditee's records. Working papers should include items that are pertinent to the audit examination. Data that is not relevant should be discarded otherwise it tends to clutter the working papers making it cumbersome and difficult to review and interpret. Working papers usually contain:

- Audit Programs
- Test data
- Analysis of tests
- Auditee division/office document abstracts
- Auditor conclusions

2.10.2 Preparation of Working papers

Developing working papers which fulfill their purpose requires careful planning before and after the audit. The auditor should review the working papers of previous period and decide to modify the structure of current period working papers, if necessary. The auditor should also consider any change in the auditee division/offices operations or organisation, which may necessitate modification of the working papers.

Following are some of the working paper standards:

- Working papers should be complete with all the information which the auditor may need to form an opinion
 - They should be accurate in terms of facts and figures recorded therein. An error in the working papers may lead to an erroneous report.
 - The working papers should be clear and it should be possible for the reviewer to understand their content. The audit trail should be apparent.
 - The entire information should be properly arranged. As far as possible use of jargon should be avoided. There should be reference symbols with notes wherever necessary.
 - Working papers must be neat, clear and concise. They should be uniform in size and appearance.
-

- Working papers should have summaries throughout. These provide the reviewer with a concise statement of data to enable easy review.
- They must present information to the reader in an easily understandable manner. They should be well spaced with details relegated to supporting schedules.
- Only relevant papers and information should be filed. Any paper which is found to be redundant should be destroyed; otherwise it will unnecessarily clutter the file.
- All working papers should be indexed. The indexing system should be simple and capable of infinite expansion. If working papers are indexed and presented in a logical manner it helps the reviewer to carry out his task quickly and efficiently.

All working papers must contain:

- Name of the auditee
- Subject, purpose and content of the working papers
- Date of preparation
- Initials of the auditor preparing or checking the working paper
- Reference of the working paper
- Date and initials of the person reviewing the working papers

The auditor should make use of all facilities at his disposal for reducing clerical time used in preparing schedules. Use of electronic data capture, photocopy facilities should be extensively used whenever possible.

2.10.3 Review of Working Papers

The review of working papers is normally done by someone whose responsibility level is higher than that of the work paper preparer. The reviewer should:

- initial and date each work paper reviewed
- complete an audit work paper review checklist
- prepare a memorandum specifying the nature, extent, and result of the review

Evidence of supervisory review should be documented in the audit working papers by the reviewer by initialing and dating each working

paper after it is reviewed. Other review techniques that provide evidence of supervisory review include completing an audit working-paper review checklist and/or preparing a memorandum specifying the nature, extent, and results of the review.

2.10.4 Control on Working Papers

Working papers are very important for an auditor and it is his responsibility to ensure that they are properly filed and guarded.

2.10.5 Arrangement of Working Papers

The completed working papers should be filed and paper separators should be used to segregate papers relating to each report. The papers should be arranged in the sequence of reports contained in the Final Report. Arrangement of papers pertaining to each report should be in the same sequence as the points in the report.

2.10.6 Indexing

Most auditors use index in the form of alpha or numeric coding. For ease of reference, the identification number and / or letter given to each working paper should be mentioned in a Main Index attached at the beginning of the file. This facilitates cross-referencing between and among working papers.

2.10.7 Safeguarding

The auditor should also ensure physical security of the working papers. He must have a proper filing system to safeguard the files.

2.10.8 Ownership and Custody of Working Papers

Documents prepared by the auditor for the purpose of conducting audit belong to the auditor himself. He should adopt appropriate procedure and security measures for their safe custody. Maintenance is important as working papers provide evidence that audit was conducted as per generally accepted auditing principles. If this evidence is lost, it will be difficult for the auditor to prove that he had performed his duties with due skill and care.

Working papers are highly confidential documents and should not be shared with anyone else. However, there may be certain circumstances when working papers may be shared with outsiders. But this should be done after obtaining appropriate approvals.

2.11 Sampling (Extent of Verification)

100% verification of records by the Internal Audit is not feasible; therefore, verification on the basis of sample is to be carried out. While selecting the audit sample, the sample method could be specified and included in the report. Standard on Internal Audit - 5 issued by ICAI, gives guidance on sampling techniques for carrying out internal audits. Depending on audit risk, sampling could be from high value items/months.

In this connection, alike practice followed in ISO, it is desired that all the Divisions may identify critical areas within their divisions / offices for 100% counter check for a selected period in a year. The reports in this regard are required to be forwarded to HOD, Internal Audit Division. The internal audit division while deciding on the audit samples will consider these reports.

2.11.1 Risk of Sampling

Whenever an auditor opts for verification of a sample and not the entire population he is taking a risk in reaching to the reported conclusion. As per Standard on Internal Audit (SIA) 5 “Sampling risk” means the risk that from the possibility that the internal auditor’s conclusions, based on examination of a sample may be different from the conclusion reached if the entire population was subjected to the same types of internal audit procedure. The two types of sampling risk are –

- a) The risk that the internal auditor concludes, in the case of tests of controls (TOC), that controls are more effective than they actually are, or in the case of tests of details (TOD), that a material error or misstatement does not exist when in fact it does.
- b) The risk that the internal auditor concludes, in the case of tests of controls (TOC), that controls are less effective than they actually are, or in the case of tests of details (TOD), that a material error or misstatement exists when in fact it does not.

However, this risk is justified in terms of time and cost factors. If these factors do not justify some uncertainty, the only alternative is a complete audit. Even if the auditor conducts a complete audit, it is still not free of all risks. There is a risk of unrecorded transactions. There is also a risk of being able to check all transactions within the given time and cost. This may result in overlooking errors as there is a huge mass of transactions to be checked.

Determining how much sampling is needed can be ascertained through a more objective approach by means of statistical sampling guided by the auditor's judgment. Audit sampling however does not absolve the auditor from any error or misstatement made by him. He cannot use it as a cover for negligence. He should take all steps to ensure that the extent of sampling was reasonable enough for him to form an opinion. Auditors normally use statistical sampling techniques. But at times even non statistical methods are used.

2.11.2 Types of Sampling:

➤ Non Statistical Sampling

Non statistical sampling or test checking consists of selecting the sample arbitrarily. The auditor uses his intuition, experience, judgment and knowledge of the auditee division/office's operations in selecting the sample. The resulting sample could be an effective sample but it cannot meet the criteria for statistical validity. For example, the test check would be for 20% of the cash transactions or entries for any two months. The questions to be asked are:

- Why 20% of the transactions and why not 15% or 25%?
- Why only two months? Which two months?
- How can one select 20% without knowing the size of the population? (20% of 10000 items will be more representative than 20% of 10 items)
- The method of selecting the sample is not stated. It is possible that easier items get selected.
- The auditor does not know what risk he is taking by selecting the specified sample. He is also not aware as to what extent the risk will reduce if the sample size is reduced to say 25%.

Statistical sampling rules out the possibility of the above mentioned questions since it takes into consideration all these issues for selection of the sample.

➤ **Statistical Sampling**

Statistical sampling can be divided into two distinct phases; statistical selection and statistical measurement. Statistical sampling is the technique of drawing the sample while sample measurement is concerned with identification of the sample size and evaluation of the sample.

➤ **Selecting a Statistical Sample**

A sample which is unbiased and representative can be correctly interpreted by an auditor. Hence he needs to be very careful in selecting a sample. As per Standard on Internal Audit (SIA) 5 “The internal auditor should select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items or sampling units in the population have an opportunity of being selected.”

There are a number of methods by which a sample can be selected” Some of them are discussed below:

➤ **Systematic Sampling**

In this method every nth item out of a series of entries is selected for verification. For example, in a population of 1200 items, if 100 items have to be selected, then every 12th item can be selected to form the sample. The first item could be any of the first 12 items. If the 4th item is selected then the series will be of 4th, 16th, 28th, 40th item and so on. Here the auditor could start with any number.

➤ **Random Number Tables**

- In most audit situations, the best method of selecting a sample is by using random number tables. An extract of a random number table –

13474	16668	29618	04136
8183	11785	50967	36091
09506	04550	32547	60679

- The first step is to establish a correspondence between the items in the population and the random number tables. If the population consists of 9000 items and the random number table consists of 5 digits, then one may decide to consider only the first 4 digits or the last 4 digits or any 4 digits.
- The sequence of selecting the numbers could be either row wise or column wise. If the first 4 digits are selected, then the items to be selected could be column wise 1347, 8128, 0950..... or row wise 1347, 1666, 2961, 0413.....
- The starting point could also be selected at random.

➤ **Stratified Random Sampling**

At times the population is not homogeneous i.e. there are wide variations between the items in the population. In such cases the population is divided into several strata, which are then sampled separately. The estimates of the value of each strata can then be added together to estimate the value of the population.

2.11.3 Determining Size of the Sample

There is always a dilemma on whether the sample size was adequate, whether it was representative and the possibility of a major error being present in the untested portion. The size of the sample should be determined very carefully. It should not be so small that it is not representative of the population. It should also not be so large that it involves unnecessary time and cost. The size of a sample will depend on:

◆ **Variability of the population**

Higher the variability of the population, larger will be the size of the sample.

◆ **Level of Confidence**

This is the level of reliability that is desired from the sampling results. For example, one may want a 90% level of confidence. This means that out of 100 samples, 90 samples will reflect the desired characteristic or will fall within the particular range of the actual characteristic.

◆ **Level of Accuracy**

This is the range within which the estimated value obtained from the sample falls as compared to the actual value. For example, the range could be \pm Rs.500 of the actual value.

In order to determine the sample size, the auditor must stipulate the level of accuracy, level of confidence and occurrence rate. A change in any of these factors may substantially change the size of the sample required. The closer the precision or greater the sample reliability required, the larger the sample. The sample size increases as the expected occurrence rate becomes larger.

It should not be forgotten that statistical sampling does not replace the judgment of the auditor. He needs to decide what level of confidence and what level of accuracy is adequate. He may decide that in a particular case 90% confidence level that a possible difference is \pm Rs.500 in the estimated value of stock of Rs.50,000/- is acceptable.

The basis of determining these levels depends on the objective of the audit and the materiality of the item. The auditors past experience and judgement also play a critical role in determining the parameters. Random sampling provides a probability that the sample selected will represent the population. Though it does not replace the auditors' judgement it is a tool which provides a measure of risk in the form of accuracy and confidence levels.

2.11.4 Evaluation of Sample Results and Analysis of errors in Sample

As per Standard on Internal Audit (SIA) 5 the internal auditor should evaluate the sample results to determine whether the assessment of the relevant characteristics of the population is confirmed or whether it needs to be revised by conducting the following:

- analyse the nature and cause of any errors detected in the sample;
- project the errors found in the sample to the population;
- reassess the sampling risk; and
- Consider their possible effect on the particular internal audit objective and on other areas of the internal audit engagement.

The internal auditor projects the error results of the sample to the population from which the sample was selected. There are several acceptable methods of projecting error results. However, in all the cases, the method of projection will need to be consistent with the method used to select the sampling unit. When the population has been divided into sub-population, the projection of errors is done separately for each sub-population and the results are combined.

The internal auditor shall also consider whether errors in the population might exceed the tolerable error. When the projected error exceeds tolerable error, the internal auditor reassesses the sampling risk and if that risk is unacceptable, would consider extending the audit procedure or performing alternative internal audit procedures.

2.12 Audit Files

The Internal Audit will retain appropriate information relating to the audit, subject wise in two main classes of files viz:

- a) Permanent audit file containing information which shall remain relevant over a long term period like organisation structure, delegation of financial powers, the Accounting Manual and other similar documents on the prescribed systems and procedures, system flow charts, circulars on rules/procedures issued by the appropriate authority.
- b) Current audit file containing checklists, schedules, and other working papers which are relevant for the particular assignment.

Apart from the two main files mentioned above, the auditor may also maintain separate files for correspondence, master information file, etc. Audit working papers may be in the form of paper, tapes, disks,

diskettes, films, or other media. If audit working papers are in the form of media other than paper, consideration should be given to generating backup copies.

In case of outsourced audits, the reports including the working papers prepared by the firm for the given assignment shall belong to and remain the property of the Internal Audit Division, REC.

2.13 Site Visits by IA Team (Physical Monitoring)

The issue whether Internal Audit is the right agency for carrying out physical monitoring of implementation of schemes financed by REC is debatable and Internal Audit Team as a general practice may normally refrain from carrying out physical technical/site visits during normal audits. However, in specific cases / requirements / for better understanding of the business and its execution corroborating various policies and strategy towards achieving corporate objective, Internal Audit Team on approval of Head of Internal Audit Division may undertake site visits.

CHAPTER-3

ORGANISATION OF THE INTERNAL AUDIT DIVISION

In REC, the Internal Audit Division considering the present available manpower, audit programme etc have been presently grouped into three teams. The teams are expected to continuously do audits of different units as per the approved audit programme. Out of the three team leaders, one team leader is also nominated as Head of the Overall Coordinating Unit of the Internal Audit Division who would take care of audit planning, vetting and issuance of internal audit reports, preparation of Quarterly Progress Reports, agenda of audit committees etc.s. The Audit Division is headed by a senior level officer i.e. HOD Internal Audit who directly reports to CMD of REC.

3.1 Delegation of Power

For smooth operations of Internal Audit Division, the authorities have been presently as below:-

S.No.	Matters	Authority for Approval
1.	<p>Review:</p> <p>(i) The Annual Audit program including frequency as per clause 49 of the listing agreement.</p> <p>(ii) Adequacy of the internal control systems.</p> <p>(iii) Adequacy of the internal audit function, including the structure of the department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.</p> <p>(iv) Discussion with internal auditors any significant findings and follow up there on.</p>	Audit Committee

	(v) Findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board. (vi) The company's financial and risk management policies.	
2.	Revision/Changes of Internal Audit Manual	CMD
3.	Revision of Guidelines of the Divisions/Section/PO	Head of Internal Audit
4.	Annual Audit Programme including outsourcing of internal audit to CA firms / outside experts	CMD
5.	Acceptance and Internal Audit Reports	Head of Internal Audit
6.	Issue of Compliance Report	Head of Internal Audit
7.	Issue of Internal audit Circulars	Head of Internal Audit

3.2 Reference Material

While conducting internal audit, Audit Team shall consider operational manual of the auditee unit, circulars issued, statutory acts like Companies Act 1956, Income Tax Act 1961, Service Tax, accounting standards, Standards of Auditing issued by ICAI, RBI guidelines on exposure norms, prudential norms, SEBI regulations, Indian Electricity Act 1910, The Electricity Act 2003, etc.

Internal Audit Division shall also obtain and procure such documents / books / circulars / guidelines as are required for its reference and use. Illustrative list of such documents is as below:-

- a) REC Accounting Manual;
- b) REC Prudential Norms;
- c) Project & Entity Appraisal Guidelines
- d) Quality Control Manual (ISO);

- e) Exposure Norms of the Corporation;
- f) Accounting Standard issued by ICAI;
- g) Companies Act & CARO guidelines;
- h) Guidelines issued on STL/SI Schemes/RGGVY/Generation Schemes
- i) Standard on Internal Audit issued by ICAI;
- j) Fair Practice Code of REC;
- k) Fraud Policy of the Corporation;
- l) Loan Policy Circulars;
- m) RBI notifications / circulars for NBFC /Infrastructure Finance Company;
- n) Listing Agreement;
- o) Various circulars issued by Vigilance;
- p) Audit Observations / paras / HMs issued by Govt Auditors along with the replies during phase audit / routine / balance sheet audit etc.
- q) audit observations / memos/ letters issued by the Statutory Auditors including copies of the documents submitted to them;
- r) ERP Manual
- s) Minutes of BOD/Audit Committees/Other committees of Board;
- t) Other relevant circulars issued by MOP/DPE/GOI/SEBI/RBI etc from time to time

3.3 Issuing Instructions on matters pointed out by Internal Audit

While performing the audit, many common mistakes or wrong interpretation of the facts comes to the notice of Internal Audit. So as to avoid such mistakes, Appropriate Authority of Internal Audit can **consider issue of general circulars** to Divisions/Project Offices/ Zonal Offices in the matter to rectify the common mistakes and avoid recurrence. However, issuing instructions on **all the operational matters**, on lapses being pointed out **by the Internal Audit** shall be **the responsibility** of the coordinating division of Corporate Office.

CHAPTER-4

INTERACTION OF INTERNAL AUDIT DIVISION WITH DIFFERENT LEVELS OF COMMITTEE

4.1 Management Committee of Audit

It was felt that to strengthen the management control systems, a new element of corporate structure may be developed through the formation of a committee for establishing link between audit committee, management and internal auditor for timely action on issues raised by the internal audit. Accordingly, a committee namely “Management Committee of Audit” has been constituted with following members:-

- Chairman of the committee: CMD
- Members: All Functional Directors, Executive Directors and Company Secretary
- Convener: HOD of Internal Audit Division

The main functions of this committee are:

- Reviewing significant findings of Internal Audit Division. Provide comments and Management response to the observations if any which can be done by circulation or otherwise.

4.2 Audit Committee

Section 292A of the Companies Act 1956 stipulates constitution of Audit Committee comprising of minimum three directors as members wherein two-thirds of the members of audit committee shall be independent directors. In REC, in terms of the listing agreement, the Audit Committee comprises of the three independent directors and the Director (Finance). Further, HOD(Internal Audit) shall be part of the meetings of the Audit Committee. The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings.

4.3 Audit Committee and Internal Audit

Audit committee shall review companies' financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible. Audit Committee further considers following issues related to Internal Audit:-

- a) Reviewing with the management, performance of internal auditors, and adequacy of the internal control systems.
- b) Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- c) Discussion with internal auditors any significant findings and follow up there on.
- d) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

The Internal Audit Division shall compile significant findings for each quarter and submit to Audit Committee for review along with management view. In addition to this, Internal Audit Division shall also follow up Action Taken Report on outstanding issue / direction of Audit Committee and submit to Audit Committee for review.

The Internal Audit Division shall also submit its Annual Audit Programme to Audit Committee for review and directions.

CHAPTER-5

AUDIT PROCESS

5.1 Audit Engagement

The Internal Audit Division will undertake the audit as per approved audit programme. The scope of audit would be as per the approved guidelines / checklist etc laid out in this regard.

In case of the outsourced CA / expert firms, the terms of engagement should contain a statement in respect of the scope of the internal audit engagement. It should clearly delineate the broad areas of function of internal audit like evaluating internal controls, review of business process cycle controls, risk management and governance. It should indicate areas where outside firms as internal auditors are expected to make their recommendations and value added comments. The outside firm shall submit the report addressed to the Auditee Unit with a copy to HOD, Internal Audit Division, REC Corporate Office. The report of the outside firm should not be distributed or circulated to any party other than that mutually agreed between the REC internal audit divisions and the outsourced firm unless there is a statutory or a regulatory requirement to do so.

5.2 Need for Internal Audit

Internal audit helps inter alia in:

- i. Understanding and assessing the risks and evaluate the adequacies of the prevalent internal controls.
- ii. Identifying areas for systems improvement and strengthening controls.
- iii. Ensuring optimum utilisation of the resources of the entity, for example, human resources, physical resources etc.
- iv. Ensuring proper and timely identification of liabilities, including contingent liabilities of the entity.
- v. Ensuring compliance with internal and external guidelines and policies of the entity as well as the applicable statutory and regulatory requirements.
- vi. Safeguarding the assets of the entity.

- vii. Reviewing and ensuring adequacy of information systems security and control.
- viii. Reviewing and ensuring adequacy, relevance, reliability and timeliness of management information system.

5.3 Preliminary Survey

A very important and critical step in the audit process is planning. The number of persons, qualifications of the audit team, time element, etc. is some of the important considerations during planning. In order to plan effectively, the auditor may need some more information about the auditee.

The following is a list of information which may be gathered by the Internal Audit Cell:

- Nature of activity
- Division/office structure
- Key personnel
- Departmental policies and procedures
- Published accounts for the previous years
- External audits / reviews for the last two years
- Internal audit reports and follow-up reports for last two years
- Details of the principal IT systems in place
- Suggestions regarding important areas or possible risk areas which need examination

The above list is not an exhaustive list and the information requirements shall depend on the type and nature of audit. Interviews with various personnel are also a good source of information. The auditor should document his findings from the preliminary survey. It is beneficial to share this document with the auditee so that accuracy of the facts stated therein can be verified and errors if any, can be eliminated. At this point the auditor should also give a brief report of his initial impressions and set forth the general thrust of the audit program. The survey also helps the auditor in taking an informed approach while planning and carrying out the audit.

5.4 Audit Planning and Audit Program

Audit planning shall ensure that:

- Best use of the available resources is made
- Appropriate attention is given to important areas
- Potential problems / risk areas are identified
- Work is completed efficiently

There is better coordination with the audit department as well as the auditee.

The extent of the audit will depend on the size and complexity of the audit location as also on the auditor's previous experience of the auditee. Planning is a continuous process and should continue even during the audit process. An auditor needs to develop an overall plan for the audit and also develop specific task related audit programs showing the nature, timing and extent of audit procedures and techniques. The overall plan shall depict the areas scheduled to be covered during the audit. While developing the overall plan, the auditor should take into account:

- Audit objective
- Scope of work
- Accounting policies adopted by the auditee division/office
- Records maintained and systems (computer packages) used by the auditee division/office
- Areas of probable risk needing specific attention
- Delegation of authority in the organization
- Periodicity of audit required to be conducted according to the requirements of the Company.

5.5 Letter of Initiation

A letter of initiation/e-mail should be sent by the Internal Audit Division to the HOD's auditee department. The letter may include the following:

- Audit objective and scope
 - Audit schedule
 - Names of the auditors
-

- List of records / documents to be kept ready for review by the auditor
- Preliminary questionnaire, if any.

5.6 Assigning Responsibilities

Every audit team consists of associates and a team leader. An associate conducts the audit in the manner and in accordance with the audit program and the checklist chalked out for the assignment. Associate works under the overall guidance and supervision of the team leader and performs all the tasks and prepares the working papers to document the extent of the examination / analyses completed. The Associate would also be required to submit the checklist of the areas covered including sampling done during the audit.

5.6.1 A team leader's responsibilities include:

- Preparation of the audit program of the particular auditee unit and identifying the procedures and techniques to be used while performing the audit.
- Guiding, instructing and reviewing the work of the associates and ensuring that the work performed is sufficient and effective.
- Ensuring that there is enough audit evidence to provide correct opinions and recommendations in the final report.
- Evaluating the adequacy and effectiveness of internal control systems and recommending improvements based on the review.
- Prepare reports including the prescribed checklist based on the findings.

5.6.2 Head of Internal Audit performs the following activities:

- Supervises the work of the auditors in the division. Reviews and approves the scope of audit defined for each assignment.
 - Develops a schedule to complete various assignments with the available resources
 - Ensures that the audit has been performed as per the generally accepted auditing principles
 - Reviews the recommendations of his auditors and helps and guides them in preparing the report.
 - Discusses the report at the audit location with the Project head.
-

- Monitors the accomplishment of the objectives set for the audit.
- Interacts with the management and provides them feedback based on his reviews.
- Maintains an effective working relationship with the auditee unit.
- Submit significant audit observations to the Management and Audit Committee.

5.6.3 Responsibilities of the Auditee Units

Internal Audit cannot be undertaken efficiently and effectively without due support from Auditee Units. Prime responsibilities of making policy, procedures and process of operations rest with the Operational Divisions. Internal Audit team can review those policies, procedures and process and can recommend for further improvement, if any. Therefore, for conducting audits, the timely and proper availability of records to the Auditors becomes paramount. All Head of the Divisions / Offices shall make available all the records to the internal audit party for the purpose of audit without any delay. Confidentiality issues, wherever applicable, may be brought into the notice of Head of Internal Audit Division in writing. Necessary instructions to provide all information/ files/documents etc with reasonable level of promptness have already been issued from time to time and also reiterated by the Audit Committee.

5.6.4 Responsibility of the HODs of the Auditee divisions

- A. Identify selective areas for 100% countercheck of the vouchers/ documents on periodical basis and forward reports to Internal Audit Division
- B. Proper system / mechanism of checks and counterchecks, as may be necessary, is put in place on a time-bound basis to avoid recurrence of mistakes / deviations or delays in compliances as and when pointed out by the Internal Audit Division;
- C. When there are lapses / mistakes / deviations, there is a system of fixation of responsibility and accountability on concerned officers / staff members, and to warn or punish them depending

upon the nature and seriousness of the issues, to have a deterrent effect.

- D. There is sincere endeavour on the part of all concerned to correct / resolve / close the issue / para of Internal Audit in a time-bound manner and not allow it to remain open-ended for indefinite period.

5.7 Audit techniques

The techniques normally employed in testing of transactions are vouching, physical verification, confirmation, scrutiny, re-computation, analytical review and other overall tests including personal judgment and professional opinion. Vouching is the most extensively used audit technique. The auditors examine the documents which form the basis of quantitative accounting and the process by which the documents were generated / raised and thereby satisfy themselves as to the authorization, authenticity and propriety of the various transactions.

Scrutiny is the auditors' attempt to discover and isolate the exception from the mass. The exceptional transactions are then followed up.

Much of accounting information is derived through the process of arithmetic. Such items are to be checked by re-computation of the calculation. According to Standard on Internal Audit (SIA) 6 - Analytical Procedures, "Analytical procedures" means the analysis of significant ratios and trends. Analytical reviews can be applied for correlating and comparing figures e.g. interest on loan with the loan amount, movement of stock items with the stock turnover ratio and past records. Judgment has to be exercised in testing qualitative assertions like reliability of debts, obsolescence of stores etc.

Physical verification technique, by its very nature, is restricted to tangible assets like cash, stores and fixed assets whose existence can be confirmed on inspection and tallied with the representation in the books and records.

Confirmation from outsiders is reliable, independent evidence and is useful for validating debtors, creditors, bank balances, etc.

5.8 Conduct of the Audit

Internal Audit Team shall meet the Head of Auditee Division and discuss various issues regarding operations, and seek feedback about any particular area of weakness in the systems and internal controls established in the office. The Internal Audit Team would also seek / discuss reports of the 100% counter check of the selected areas got conducted by the HOD, Audit Unit during the particular period to ensure adequacy of the internal control system.

5.9 Day to Day Interaction

During the process of auditing, requisitions are issued from time to time to get records and Half Margins (HM's)/paras to convey observations and obtain clarifications or required information.

In case, the reply to HM's is not satisfactory or no reply received or there are lapses in the Internal Control System, then those observations along with the replies may form the part of Internal Audit Report.

5.10 Review of internal controls

The purpose of the review of internal controls is to ascertain whether the system established provides reasonable assurance that the organisation's objectives and goals will be met efficiently and economically. According to Standard on Internal Audit (SIA) 12 - Internal Control Evaluation, internal audit function adds value to an organization's internal control system by bringing a systematic, disciplined approach to the evaluation of risk and by making recommendations to strengthen the effectiveness of risk management efforts.

5.11 Attributes of Audit Findings

Well developed audit findings contain the following five attributes:

- **Criteria:** Criteria are the standards against which the audit team measures the activity / performance of the auditee. Criteria can take various forms, such as, laws, regulations, performance efficiency levels, etc.

- **Conditions:** These are factual statements describing the results of the audit. These are findings made by the audit team and highlight what the audit team did or is doing compared to the standards established by the criteria.
- **Cause:** Knowing why and how a condition occurred is essential to develop a meaningful recommendation. Clear understanding of the cause when developing recommendations to correct the problem shall be accepted by the management. It is essential that the underlying / root cause is identified.
- **Effect:** The difference between what is and what should be is classified as the effect of the finding. The effect helps grasp the impact of the incorrect action.
- **Recommendation:** This is a clear statement of action that must be taken to correct the problem.

5.12 Appraising audit evidence

All data and evidence obtained by the auditor must be appraised to determine whether conditions need correcting or matters warrant reporting.

5.13 Reporting

An auditor has to finally report his findings to management in order to conclude the assignment. An audit report is the vehicle through which he puts forth his opinions and recommendations to the management.

5.13.1 Types of reports

There are various kinds of reports that an internal auditor may issue, such as:

Interim report: If the audit process is expected to be a lengthy one, the auditor may issue an interim report to evidence the audit conducted till then.

Draft report: Internal Audit would be finalised after covering all the areas and pending observations would be consolidated in form of “Draft Internal Audit Report” which is issued for discussion seeking the auditee response for the points mentioned therein.

Once the draft report has been handed over to the local/ departmental management, it is the auditee responsibility to:

- Verify the correctness of the facts stated in the draft report;
- Eliminate any misconceptions on the part of the auditor;
- Respond to the issues raised/recommendations made by the auditor;
- Respond to the relevance / materiality of the issues raised

During the discussion with the concerned HOD, his views are recorded on the Draft Internal Audit Report. After the discussion, the Draft report is finalized after incorporating the views of the concerned HOD and giving final comments on the audit findings. In case, no comments are received / discussion held from / by the Auditee Unit within a reasonable time not exceeding one week, facts and the figures stated in the draft audit report shall be treated as correct and report finalized by the Internal Audit Division.

Draft report along with linked documents shall be forwarded to coordinating head of Internal Audit Division with following information:-

- a) Checklist from the HOD of the auditee unit about compliance with various internal controls, guidelines, applicable instructions etc
 - b) Checklist by the leader of internal audit team comprising of various details like duty allocations to each members, specific reference of important observations wherein immediate action is required, confirmation about adherence of steps prescribed in Manual while conducting audit, key documents numbering, brief about internal controls examination etc.
 - c) Statement of audit memos / half margins issued during audit and status of replies;
-

- d) Contribution list of audit team members;
- e) Latest status of pending paras.

Final Internal Audit Report

The draft report is suitably modified to incorporate any factual errors/misconceptions pointed out by the auditee. The management response is also incorporated in the final report. Corrective action taken post audit should also be mentioned in the report. There may be issues that may appear irrelevant after having incorporated the local management response. Such points may be suitably dropped from the final report.

The final Internal Audit Report is issued after approval to the Concerned HOD with a copy to:

- Director(Finance)
- Director(Technical) CVO
- Concerned Executive Director / Zonal Manager
- Copies of Internal Audit Reports may also be put up for information of CMD from time to time

In case of observations of dual responsibilities where in addition to Auditee Unit, other division is also responsible to rectify/ comply, relevant extract of the observation would also forwarded to HOD of the division for comments or information. Internal Audit Report may also be put on the intranet portal of REC as well as sub portal of Internal Audit.

Quarterly Significant Findings

Significant findings observed during the quarter which have substantial financial implication or relate to major deviation from the policy and remain unresolved or not rectified shall be submitted to the Chairman & Managing Director and the Audit Committee for their consideration and review.

In addition to the above, this report may also contain issues observed by the Internal Audit division during the quarter pertaining to revision / formulation of policy, internal controls strengthening, major recovery etc.

5.14 Management Committee of Audit

Quarterly Report containing significant findings of the Internal Audit Division for the quarter alongwith brief reply/ comments of the auditee unit shall be circulated to members of the Management Committee of Audit (MCA) for their review/comments, if any before putting up the same for approval to the CMD and for consideration and review of the Audit Committee.

5.15 Audit Committee

Significant findings of the Internal Audit are to be placed before the Audit Committee on quarterly basis for review. Audit Committee is the final authority to take decision so far as internal audit matters are concerned.

As enunciated in the Companies Act, Listing Agreement and the Corporate Governance Guidelines for CPSEs issued by DPE, Audit Committee has its mandate which includes inter alia periodic discussion about internal control systems, review and ensure compliance of internal control systems, oversight of company's financial reporting process, review of adequacy of internal audit function including internal control weaknesses, reporting structure coverage, its significant findings and follow up thereon, besides coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources.

The HOD, Internal Audit may also report to the Audit Committee on a periodic basis on:

- Effectiveness of risk management measures
- Discuss significant findings and status of follow-up actions
- Review adequacy of internal control systems/corporate policies
- Fulfill mandate of Audit committee for establishing adequate controls / internal investigations – suspected frauds or irregularity or failure of internal control systems of a material nature.

5.16 Audit Follow–Up

Follow -up is defined as the action required to be taken to correct the deficiencies, which are identified by Internal Audit. While the management is expected to ensure that the action required is taken, nevertheless, if such agreed action has not been taken by management within a reasonable time, Internal Audit shall report on inadequate compliance to the Audit Committee. Necessary directions in this regard have been issued by the Audit Committee and listed in the relevant paragraphs.

5.16.1 Follow - up by management

Once the rectificatory action has been decided by Audit Committee, the respective HOD's are expected to:

- a) Allocate responsibility for implementation.
- b) Establish a period by which the implementation should be completed.
- c) Ensure that the target date is met.

5.16.2 Follow-up by Internal Audit

In his independent appraisal role, and as part of the Internal Audit service to management, Internal Audit shall:

- a) Assess whether or not the recommendations have been effectively implemented.
- b) Response on finding of internal audit

The auditee division is required to reply to the points raised in Internal Audit Report within 15 days of the issue of report. If the reply is not forthcoming then Internal Audit Division will send a reminder to the concerned HOD. Cases of significant delays in replies to internal audit would be put up to Audit Committee.

In line with the directions issued by the Audit Committee, an Action Taken Report (ATR) is also required to be submitted to the Audit Committee on periodical basis. This ATR should clearly indicate the following:

- Details of specific action taken by the concerned HOD on the observation and directions of the Audit Committee.
- Time line given/required for settling and closing the issue.
- As per direction of Audit Committee, the replies given by the Auditee Unit should be specific listing out the proposed action in time bound manner.
- Efforts should be made to resolve the matter and not pass the buck to other divisions / office.

5.17 Settlement of Para

On receipt of the Replies / Compliance from the Divisions/ Sections/ Project Offices/ Zonal Office, analysis of the reply is done and thereafter decision on settlement of para is taken.

Although, no clear cut benchmark could be defined for settlement of para but following yardstick could broadly be followed:

Observations	Action required for settlement of findings / paras
Para relating to internal control	Control is reviewed and strengthened.
Para relating to procedural lapse	Assurance of non occurrence and approval of Competent Authority
Para relating to recovery/ payment	After recovery/payment is done
Statutory non compliance	Rectification, compliance and Waiver of non compliance
Para relating to other matters	As appropriate.

However, all such cases, where para is dropped on assurance, shall be reviewed during subsequent audit of the unit.

5.17.1 Consolidation of Pending Para

All the paras from different Internal Audit Report not settled, shall be compiled and reviewed. HOD's will be reminded of the pendency on regular basis.

On further replies / compliance, the same would be processed in the respective files. The latest status of pending paras would be

updated in the consolidated para file also.

Consolidation of pending paras at one place would facilitate the follow up process and reporting to the management about non compliance, time taken in compliance, total outstanding paras at a particular time and unattended observations for long time by the auditee unit.

The Internal Audit division in consultation with IT Division at Corporate Office may also arrange to develop a suitable software / programme for compilation of audit paras both office wise and item wise for the use by Audit Division and Auditee Units.

CHAPTER-6

COMPLIANCE MONITORING AND INTERNAL AUDIT

6.1 Compliance function in a company will include the following activities:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of internal control.
- Developing, publicising and following a code of conduct. Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Targeting information for compliance to those employees or departments who are in the best position to verify possibilities of non-compliance.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

An appropriate system of internal control to monitor compliance with all the applicable laws and regulations will include:

- Preparation of a Compliance Checklist of applicable laws and regulations. Regularly updating the checklist with the new directives issued.
- Defining a policy for periodic receipt of compliance status from the concerned departments.
- Escalate the reasons for non compliance with any of the laws and regulations and also report the non compliance alongwith with reasons to the concerned authority/regulator.

According to Standard on Internal Audit (SIA) 17- Consideration of Laws and Regulations in Internal Audit, Compliance with laws and regulations is an inherent part of the functioning of an entity. Since the role of an internal auditor is to carry out a continuous and critical appraisal of the functioning of an entity and suggest improvements thereto, the identification of non-compliance with laws and regulations is also an inherent part of his responsibilities.

Compliance with the laws and regulations can be divided into two categories:

- a. Laws and regulations which have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and laws regulating the reporting framework; and
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business or to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations).

Internal auditor's responsibility for each of the above type of compliance may be defined as follows:

- a. For the category referred to in paragraph (a), the internal auditor's responsibility is to obtain sufficient appropriate audit evidence, in accordance with the Standard on Internal Audit (SIA) 10, "Internal Audit Evidence", about compliance with the provisions of those laws and regulations.
- b. For the category referred to in paragraph (b), the internal auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a significant impact on the functioning of the entity.

If the internal auditor concludes that the non-compliance has a significant impact on the functioning of an entity and has not been adequately dealt with by the management, the internal auditor shall report the same in accordance with SIA 4, "Reporting".

The internal auditor shall document identified or suspected noncompliance with laws and regulations and the results of discussion the management and, where applicable, those charged with governance and other parties outside the entity in accordance with the Standard on Internal Audit (SIA) 3, "Documentation".

6.2 List of Compliances by a Non-Banking Finance company (Loan Company / Investment Company) not accepting public deposits / Infrastructure Finance Company

In accordance to the RBI circular on Infrastructure Finance Companies dated February 12, 2010, REC w.e.f. 17.9.2010 has been categories as Infrastructure Finance Company by RBI. Prior to that REC was a NBFC ND SI. According to the RBI circular, IFC are eligible as follows:

Infrastructure Finance Companies may exceed the concentration of credit norms

(i) in lending to

- a) any single borrower, by ten per cent of its owned fund; and
- b) any single group of borrowers, by fifteen per cent of its owned fund;

(ii) in lending to and investing in, (loans/investments taken together)

- a) a single party, by five percent of its owned fund; and
- b) a single group of parties, by ten percent of its owned fund.

Presently REC is required to comply with the following regulations:

- a) Chapter III B and V of RBI Act, 1934
- b) Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 2008.

- c) Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998
- d) Reserve Bank of India (NBFC) Returns Specification, 1997
- e) Fair Practice Code for NBFCs
- f) Guidelines on Corporate Governance for NBFCs
- g) Guidelines for Asset-Liability Management (ALM) system in NBFCs
- h) 'Know your Customer' Guidelines for NBFCs
- i) Companies Act 1956.

However with the REC getting the IFC status, the compliance and the reporting requirement as applicable to the Infrastructure Finance Company (IFC) in terms of RBI guidelines need to be ensured in addition to above where ever applicable.

6.2.1 Submission of returns

1. Has the NBFC submitted Audited B/S, P/L, and Directors Report within 15 days of General Meeting?
2. Has the NBFC submitted Monthly Return on important financial parameters of the company (NBFC having asset size of 100 crore or above) within 7 days of next month?
3. Has the NBFC submitted Board resolution (that Co. has neither accepted public deposit nor would accept any public deposit during the year) within 30 days of commencement of each F/Y. (i.e. before 30th April every year)?
4. Has the NBFC submitted an annual statement of capital funds, risk asset ratio etc. in NBS-7 within 3 months from close of F/Y i.e. (before 30th June every year)?
5. Has the NBFC submitted Certificate from their Statutory Auditors (every year to the effect that they continue to undertake the business of NBFIs requiring holding of COR under Section 45-IA of the RBI Act, 1934.) alongwith asset /income pattern before 30th June every year?
6. Has the NBFC submitted changes in address of Co./Directors/designation of principal officers/name & address of auditors/ specimen signatures of authorised signatories within one month of change?

6.2.2 Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 2008 [Notification No.DFC.119/DG (SPT)-98 dated 31.01.1998]

1. In terms of above, REC has formulated its prudential norms duly approved from the Board of directors and submitted the same for approval of the administrative ministry. With regard to the exposure norms not being in line with RBI norms, RBI on the request of REC has subject to compliance of certain conditions including submission of the road map etc, has given time limit till March 31, 2012 for compliance with RBI prescribed exposure limits in respect of lending to Central and State entities in the power sector. REC is therefore required to report to RBI on a quarterly basis the exposures exceeding the prescribed prudential ceilings. Also REC may indicate the milestones for achieving adherence to the prudential regulations of RBI.
2. Apart from the above, REC is required to submit information in regard to change of address, directors, auditors, Principal officer, etc. within 30 days from the date of occurrence of any change.

6.2.3 Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998

- Whether the company has applied for registration under the Reserve Bank of India, Act, 1934.
- Whether the company has complied with the applicable prudential norms.
- Whether the company has submitted the necessary returns.

6.2.4 Guidelines on Fair Practices Code

The Guidelines on Fair Practices Code is applicable for all Non-Banking Financial Companies including Residuary Non-Banking Companies

1. Does the company have a fair practices code, if yes:
 - Has the code been approved by the Board of Directors, if yes,
 - Has the code been published and disseminated on the company's website for the information of the public.

2. Does the fair practice code contain the practice to be followed in the following matters:
 - Applications for loans and their processing
 - Loan appraisal and terms / conditions
 - Disbursement of loans including changes in terms and conditions
 - Recovery of loans
3. Does the company have a grievance redressal mechanism to resolve disputes?
4. Is periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism done?

6.2.5 RBI Guidelines on Corporate Governance for NBFCs

This guideline is applicable to all non-deposit taking NBFCs with asset size of Rs.100 crore or above

1. Is there an audit committee. Obtain details of the committee.
2. Is there a Nomination Committee?
3. This committee is formed to ensure 'fit and proper status' of the proposed / existing directors.
4. Has the company constituted a Risk Management Committee?
5. Does the company have its own internal guidelines on corporate governance, if yes, has it been published on the company's website.

6.2.6 RBI Guidelines for Asset-Liability Management (ALM) system in NBFCs

This note lays down broad guidelines in respect of interest rate and liquidity risks management systems in NBFCs which form part of the Asset Liability Management (ALM) function. This is applicable to all NBFCs and Residuary non-banking companies meeting the criteria of asset base of Rs.100 crore, whether accepting deposits or not, or holding public

deposits of Rs.20 crore or more.

1. What is the ALM Information system followed by the company?
2. How is the information required for asset liability management collected and analysed?
3. Is there an asset liability committee (ALCO) consisting of the company's senior management to decide the business strategy of the NBFC. if yes, what is the composition of the committee.
4. Does the company have ALM support groups to analyse, monitor and report the risk profiles to the committee?
5. What is the process in place to address liquidity risks and interest rate risks?
6. Does the company submit half yearly returns in ALM-Annexure I, II and III to the Reserve Bank?

6.2.7 Relevant Provisions of the Companies Act, 1956

All NBFCs, being companies registered under the Companies Act, have to fulfill compliance relating to the Board of Directors, Share Capital, Management Structure, Audits, Meetings, maintenance as well as publication of books of accounts and general conduct as per the requirements of the Companies Act 1956.

6.2.8 Some of the other relevant provisions in the companies Act, 1956 are laid down in:

- Section 209- Books of account to be kept by company
- Section 217-Board's report
- Section 227 - Powers and duties of auditors Section 292A - Audit Committee
- Section 370-Loans etc to companies under same management
- Section 372A- Inter corporate loans and investments
- Section 620A- Power to modify Act in its application to Nidhi's etc
- Section 637A - Powers of Central Government or Company Law
- Board to accord approval etc subject to conditions and to prescribe fees on applications.

6.3 Gist of Standards on Internal Audit issued by the Institute of Chartered Accountants of India

Standard on Internal Audit (SIA) have been issued by the Council of the Institute of Chartered Accountants of India. These Standards should be read in conjunction with the Preface to the Standards on Internal Audit, issued by the Institute. In terms of the decision of the Council of the Institute of Chartered Accountants of India taken at its 260th meeting held in June 2006, the Standards on Internal Audit shall be recommendatory in nature in the initial period. The Standards shall become mandatory from such date as notified by the Council.

1. Standard on Internal Audit (SIA) 1-Planning an Internal Audit
2. Standard on Internal Audit (SIA) 2- Basic Principles governing an Internal Audit
3. Standard on Internal Audit (SIA) 3- Documentation:
4. Standard on Internal Audit (SIA) 4 - Reporting:
5. Standard on Internal Audit (SIA) 5 – Sampling.
6. Standard on Internal Audit (SIA) 6 - Analytical Procedures:
7. Standard on Internal Audit (SIA) 7 - Quality Assurance in Internal Audit
8. Standard on Internal Audit (SIA) 8 - Terms of Engagement:
9. Standard on Internal Audit (SIA) 9 - Communication with management.
10. Standard on Internal Audit (SIA) 10 - Internal Audit Evidence:
11. Standard on Internal Audit (SIA) 11- Consideration of fraud in Internal Audit:
12. Standard on Internal Audit (SIA) 12 - Internal Control Evaluation:
13. Standard on Internal Audit (SIA) 13 - Enterprise Risk Management

14. Standard on Internal Audit (SIA) 14 - Internal Audit in Information Technology Environment
15. Standard on Internal Audit (SIA) 15 - Knowledge of entity and its environment
16. Standard on Internal Audit (SIA) 16 - Using the work of an expert
17. Standard on Internal Audit (SIA) 17- Consideration of laws & regulations in an Internal Audit

CHAPTER-7

AUDITING IN COMPUTERIZED ENVIRONMENT

7.1 IT Environment and Auditing

The advent of Information Technology has changed the working in REC in many ways, and audit should not be exception. The Computer, though undoubtedly one of the most effective business tools, has also brought with it vulnerabilities of the automated business environment. Each new vulnerability needs to be controlled specially in a primarily financing company assessing the adequacy of each control also requires new methods of auditing.

With large investment and dependence on computerized systems in REC, it has become imperative for internal audit to change the methodology and approach to audit because of the risks to data integrity, abuse, privacy, etc. In an IT system, especially implemented in an environment of deficient controls as compared to a manual system, different audit approach is required to provide assurance that adequate measures have been designed and are operated to minimize exposure to various risks.

According to the Standard on Internal Audit (SIA) 14-Internal Audit in Information Technology Environment, The nature of the risks and the internal control characteristics in IT environments include the following:

- Lack of transaction trails
- Uniform processing of transactions
- Lack of segregation of functions
- Potential for errors and irregularities
- Initiation or execution of transactions
- Dependence of other controls over computer processing
- Potential for increased management supervision
- Potential for the use of computer-assisted audit techniques

7.2. Objectives of IT Audit

The objectives of IT audit include assessment and evaluation of processes that ensures:-

➤ **Asset safeguarding which includes**

- Data
- Application Systems
- Technology (hardware, operating systems, database management systems, networking, multimedia, etc)
- Facilities related to above

➤ **Ensures following attributes of data or information are maintained :-**

- **Effectiveness** - Relevant and pertinent information delivered timely, correct, consistent and usable manner.
- **Efficiency** - optimal (most productive and economical) usage of resources.
- **Confidentiality** - concerns protection of sensitive information from unauthorized disclosure.
- **Integrity** - relates to the accuracy and completeness of information as well as to its validity in accordance with the business' set of values and expectations.
- **Availability** - Information being available when required
- **Compliance** - Complying with those laws, regulations and contractual arrangements
- Reliability of information

Thus, IT Audit is all about examining whether the IT processes and IT Resources combine together to fulfill the intended objectives of REC to ensure Effectiveness, Efficiency and Economy in its operations while complying with the rules and regulations.

7.3. Understanding about Organisational and Management Controls for Operations which has been Computerized

According to Standard on Internal Audit (SIA) 14- Internal Audit in Information Technology environment, the internal auditor should have sufficient knowledge of the information technology systems to plan, direct, supervise, control and review the work performed.

The internal auditor needs to obtain an understanding of the divisional hierarchy as well as its translation within IT system. The knowledge of the organisational levels and delineation of the responsibilities would provide valuable inputs into supervisory controls and responsibility centre. Organisational and management controls encompass the following:

- Separation of duties between the information processing environment and other organizational environments or functions.
- Separation of duties within the information processing environment.
- Methods to assess effective and efficient operations.

7.4. Preliminary Assessment of Resources

Preliminary assessment of hardware and software would enable planning the audit approach and the resources required for evidence collection. This information provides the auditor an understanding of the risks involved.

The internal auditor also needs to understand the type of software used in REC. Broadly software can be either developed in house or purchased as a commercial product off the shelf.

7.5. Risk Assessment to Define Audit Objective and Scope

Risk management can be defined as a process of identifying risk, assessing risk, and taking steps to reduce risk to an acceptable level, where risk is the net negative impact of the exercise of vulnerability, considering both the probability and the impact of occurrence. The three security goals of any organization are Confidentiality, Integrity and Availability.

Risk assessment is a systematic consideration of following factors:

- The business harm likely to result from a security failure, taking into account the potential consequences of a loss of confidentiality, integrity or availability of the information and other assets;
- The realistic likelihood of such a failure occurring in the light of prevailing threats and vulnerabilities and the controls currently implemented.

7.5.1 Inherent Risk

Inherent risk is the susceptibility of information resources or resources controlled by the information system to material theft, destruction, disclosure, unauthorized modification, or other impairment, assuming that there are no related internal controls.

7.5.2 Control Risk

Control risk is the risk that an error which could occur in an audit area, and which could be material, individually or in combination with other errors, will not be prevented or detected and corrected on a timely basis by the internal control system.

IT controls are grouped as General controls, Application controls and Specific controls. At the planning stage it would suffice for the internal auditor to form a general opinion on the nature and adequacy of the controls deployed in an IT system and also areas where the Controls are weak and vulnerable. This forms the basis of the extent, the areas, and the depth of testing required.

Internal control activities and supporting processes are either manual or driven by automated computer information resources. Elements of controls that should be considered when evaluating control strength are classified as Preventive, Detective and Corrective with the following characteristics.

Preventive	<ul style="list-style-type: none"> • Detect problems before they occur • Monitor both operation and inputs • Attempt to predict potential problems before they occur and make adjustments • Prevent an error, omission or malicious act from occurring
Detective	<ul style="list-style-type: none"> • Use controls that detect and report the occurrence of an error, omission or malicious act
Corrective	<ul style="list-style-type: none"> • Minimise the impact of a threat • Resolve problems discovered by detective controls • Identify the cause of a problem • Correct errors arising from a problem • Modify the processing systems to minimize future occurrence of the problem

The internal auditor should ordinarily make a preliminary evaluation of the controls and develop the audit plan on the basis of this evaluation. During a review, the auditor will consider the appropriateness of this evaluation in determining the extent to which controls can be relied upon during testing.

7.6 Controls in a Computerized Environment

In a computerized environment, the control components found in manual systems must still exist. However, the use of computers affects the implementation of these components in several ways. Information Technology controls are used to mitigate the risks associated with application systems and the IT environment and broadly classified into two categories:-

- General Controls
- Application controls

7.6.1 General Controls

General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the

environment in which the application systems and application controls operate. Examples include IT policies, standards, and guidelines pertaining to IT security and information protection, application software development and change controls, segregation of duties, business continuity planning, IT project management, etc. General IT controls are concerned with the organisation's IT infrastructure, including any IT related policies, procedures and working practices. They are not specific to individual transaction streams or particular accounting packages or financial applications.

7.6.2 Application Controls

Application controls pertain to specific computer applications. They include controls that help to ensure the proper authorization, completeness, accuracy, and validity of transactions, maintenance, and other types of data input. Examples include system edit checks of the format of entered data to help prevent possible invalid inputs, system enforced transaction controls that prevent users from performing transactions that are not part of their normal duties, and the creation of detailed reports and transaction control totals that can be balanced by various units to the source data to ensure all transactions have been posted completely and accurately.

Application controls are particular to an application and may have a direct impact on the processing of individual transactions. These controls are used to provide assurance (primarily to management) that all transactions are valid, authorised and recorded.

7.7. Auditing technique for IT environment

IT audit encompasses review of effectiveness of controls exists in the system.

7.7.1 Audit of General Controls

General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the environment in which IT applications and related controls operate. The internal auditor will focus on general controls that normally pertain to REC's computer facilities and systems supporting a

number of different IT applications, such as major data processing installations or local area networks. If general controls are weak, they severely diminish the reliability of controls associated with individual IT applications i.e. application controls.

Following are the major categories of general controls that an auditor should consider:

- Organisational And Management Controls;
- IT Operational Controls;
- Physical Controls (Access And Environment);
- Logical Access Controls;
- Controls For IT Acquisition;
- Program Change Controls, And
- Business Continuity And Disaster Recovery Controls

7.7.2 Audit of Application Controls

Application controls are particular to an application and may have a direct impact on the processing of individual transactions. These controls are used to provide assurance that all transactions are valid, authorised, complete and recorded. Since application controls are closely related to individual transactions it is easier to see why testing the controls will provide the auditor with audit assurance as to the accuracy of a particular account balance. Before getting on to evaluation of application controls, it will be necessary for an auditor to secure a reasonable understanding of the system. For this purpose, a brief description of the application should be prepared;

- Indicating the major transactions,
- Describing the transaction flow and main output,
- Indicating the major data files maintained and
- Providing approximate figures for transaction volumes.

Application controls may be divided into:

- Input controls
- Processing controls
- Output controls

7.8 Using Computer Assisted Audit Techniques

Once the auditor completes the evaluation of internal controls, it is necessary to plan for obtaining sufficient, reliable and relevant evidence to support his/her conclusions on the effectiveness of controls. The auditor also needs to obtain assurance that the data processed by the system is complete, valid, and accurate and is giving the desired results.

Computer Assisted Audit Techniques (CAATs) are computer based tools, which help an Auditor in carrying out various automated tests to evaluate an IT system or data. These are very useful, where a significant volume of auditee data is available in electronic format. CAATs provide greater level of assurance as compared to other techniques, especially manual testing methods, due to the following reasons:

- Key account areas can be analysed in-depth
- Large volumes of data can be tested and analysed 100% within a short span of time and with less effort
- Tests can be repeated easily on different files/data
- Tests can also be flexible and more complex with change in parameters
- Documentation of audit tests and results can be generated by these tools
- Scarce audit resources can be deployed more efficiently and effectively.

7.9 ERP Audit

According to Standard on Internal Audit (SIA) 14 Internal Audit in an Information Technology Environment, the internal auditor should consider whether any specialised IT skills are needed in the conduct of the audit, for example, the operating knowledge of a specialised ERP system.

Audit of ERP solutions is not just an audit of technology but of the business process as well, hence it is important that a judicious mix of IT and auditing skills is made in an ERP audit team. While conducting IT audit, concentration of audit team remains on procurement and maintenance of hardware, maintenance of software, identification of parties for AMC of hardware etc whereas ERP audit stressed on flow of information under various process of the enterprise, validation at each level, encryption of sensitive data, odd reports to check the process, flow diagram envisaged and actual data flow and its variation, log of users, validation before editing of any data, proper delegation of powers to be adhered to etc.

7.10 Resource for ERP Audit

To undertake ERP audit, the auditor has to possess multi disciplinary qualification which covers both stream i.e. basic information technology, some course like DISA / CISA etc and actual operations i.e. finance / engineer. Without basic operational knowledge, it would not be in a position to work out trail of the input / output data.

7.11 Scope of ERP Audit

In case of enterprise having ERP solutions implemented in various process, all the operations are automated, therefore, in case of any flow in the ERP programme, the output would be useless. Therefore, in ERP scenario, all the processes have to be verified by audit team in such a way that basic flow remains as per policy of the corporation and towards effective and efficient way to achieve objectives.

Following checklist may be considered while conducting ERP audit:-

To Check that:

- a) Whether policies exist for outlining roles and responsibilities for all personnel within the organization with respect to information systems, internal control and security.
- b) Whether regular reviews done to evaluate and appropriately increase internal control and security.
- c) Whether quality assurance function and policies exist.
- d) Whether quality assurance function has sufficient independence from system development personnel, and adequate staffing and expertise to perform its responsibilities.
- e) Whether management has formally assigned organisation-wide responsibility for formulation of internal control and security (both logical and physical) policies and procedures to a security officer.
- f) Whether organisation's security policy clearly defines responsibilities for information security that each core user is required to perform.
- g) Whether procedures exist to review and maintain changes in data and system ownership on a regular basis.
- h) Whether policies and procedures exist for describing supervisory practices to ensure that roles and responsibilities are properly exercised, and all personnel have sufficient authority and resources to perform their roles and responsibilities.
- i) Whether segregation of duties exists between the following pairs of units:
 - Systems development and maintenance
 - Systems development and operations
 - Systems development/maintenance and information security
 - Operations and data control
 - Operations and users
 - Operations and information security

- j) Whether IT staffing and competence is maintained to ensure its ability to provide effective technology solutions.
- k) Whether IT policies and procedures exist to control the activities of consultants and other contract personnel, and thereby ensure the protection of the organisation's assets.
- l) Whether procedures applicable to contracted IT services for adequacy and consistency with organization acquisition policies.
- m) Whether training programmes are consistent with the organisation's documented minimum requirements concerning education and general awareness covering security issues.
- n) Whether technical and management skill gaps are identified and appropriate actions are taken to address these gaps.
- o) Whether change control is a formal procedure for both user and development groups.
- p) Whether change control log ensures all changes shown were resolved.
- q) Whether centralised security organisation is in place responsible for ensuring only appropriate access to system resources.
- r) Whether reporting exists for security breaches and formal problem resolution procedures are in place, and these reports include:
- Unauthorized attempts to access system (sign on)
 - Unauthorised attempts to access system resources
 - Unauthorised attempts to view or change security definitions
 - Resource access privileges by user ID
 - Authorised security definitions and rule changes
 - Authorised access to resources (selected by user or resource)
 - Status change of the system security
 - Accesses to operating system security parameter tables
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- s) Whether at log-on, an advisory warning message to users regarding the appropriate use the hardware, software or connection logged on.
- t) Whether password policy includes:
- Initial password change on first use enforced
 - An appropriate minimum password length
 - An appropriate and enforced frequency of password changes
 - Password checking against list of not allowed values (e.g., dictionary checking)
 - Adequate protection of emergency passwords

CHAPTER-8

GUIDELINES / CHECKLIST FOR AUDITING VARIOUS DIVISIONS/ OFFICES

Based on the information provided by the various Auditee Division / Offices, nature and criticality of their business operations, exposure of Internal Audit Teams, present applicable guidelines / circulars etc etc on the subjects, the illustrative Guidelines / Checklists for auditing various divisions / offices have been prepared. However, the Team Leader of the Internal Audit Division or outsourced CA / expert firms may add to the same based on their own understanding of the various issues pertaining to the concerned Auditee Unit.

However, it shall be the responsibility of the Auditee Unit to appraise / inform the Internal Audit Division about:-

- Any change in the applicable rules, guidelines or provisions of applicable Acts etc pertaining to working of their divisions / offices
- Any change in the allocation of the work, nature of operations, delegation of powers, procedures etc

Further, in the ERP environment, the Officers of the Auditee Unit are required to work/ operate in line with the delegated and given responsibilities and guidelines and clear audit trail of different work flows and approvals should be available for verification of the Internal Audit.

The illustrative guidelines for various divisions are given as under:-

8.1 Corporate Accounts and Taxation

Presently, responsibilities of Accounts & Taxation Section comprise of compilation of accounts, schedules, final balance sheet and profit & loss accounts, various returns to MOP, payment of advance tax, , filing of returns, assessment and appeal cases of income tax, wealth tax etc. However, TDS is presently looked after by respective divisions. Other works include coordinating

various audits, budget preparation, remittances of funds to PO, imprest accounting of all the project offices, overall data entry of vouchers.

A. Guideline of audit of Accounting Procedures:

The financial statements are prepared under the historical cost convention on accrual basis. The income recognition is based on the applicable prudential norms. Other applicable accounting standards such as AS-3, AS-5, AS-6, AS-10, AS-11, AS-12, AS-13, AS-15, AS-16, AS 22, AS-26, AS 28 and AS-29 are applied and reported in the financial statements.

Accounting Procedure

1. Check that there exists an internal control system to ensure that vouchers are not omitted from posting and all the receipt and payment vouchers are posted in general ledger.
2. The expenses accounted are basically under correct head of account.
3. Check the journal entries passed.
4. Detailed checking of the vouchers should be done for the months selected by the audit team.
5. Depreciation rates are applied correctly. AS 6- Depreciation Accounting and AS 28-Impairment of Asset are appropriately applied while accounting for depreciation.
6. In the beginning of every year all reversal entries of the provisions made in previous year, are passed without omission.
7. At the end of the year, the following is undertaken:
 - All accrued income and outstanding expenses are taken into account. Check that there is a system of ascertaining outstanding expenses from concerned departments.

8. The rectification JVs are passed after ascertaining their justification.
9. Transactions are checked by the accounts section on continuing basis for rectifying misclassification in accounts heads.

The final Profit /Loss account and Balance Sheet project true and fair view of state of affairs of the corporation and that all accrued income and outstanding liabilities are taken note of. Check Implementation of AS 1 - Disclosure of Accounting Principles, AS 3 Cash Flow Statements, AS 4 Contingencies and Events Occurring After the Balance Sheet Date, AS 20 Earnings Per Share, , AS 30- Financial Instruments: Recognition and Measurement, AS 31 - Financial Instruments: Presentation and AS 32- Financial Instruments: Disclosures.

10. Check that all assets whose unit cost is Rs.5000/- or less is charged to revenue, but quantitative record is kept. This is as per the present capitalisation policy. Any change in the policy would be factored by the official responsible for the activity.
11. All prior period expenses are charged as current year expenses as per Accounting Policy of the Corporation. Implementation of AS 5- Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies is ensured.
12. All interest /principal on NPAs due for two quarters or more are recognised as and when received. This is as per the present revenue recognition policy. Any change in the policy would be factored by the official responsible for the activity.
13. Income on loans whose terms are renegotiated /

rescheduled / restructured are recognised on accrual basis.

- 14.** Other income such as commission, interest, agency charges, etc is accounted in accordance to the terms and condition laid down.
- 15.** The Chart of Accounts prescribed for the road map of Financial Reporting System are properly administered by following various Internal Checks as prescribed as follows:-
- i. The Account Codes are being used uniformly by all the accounting units of REC.
 - ii. The creations of new Account Codes, control of account codes are done by CAT Division at Corporate Office. No other unit may be allowed to create any new account code.
 - iii. After completion of a financial year an updated manual of Code of Accounts is circulated to all accounting units of REC.
- 16.** The Subsidiary Ledgers are created as per sub-ledger codes and are reconciled with General Ledger. Necessary follow-up is made with all concerned divisions to adjust old outstanding balances by regular review of Subsidiary Ledgers.
- 17.** Carry out periodic review of the contingent liability/CARO based on the following present norms. Any change in the present norms would be taken care of by the respective divisions:
- All cases involving amounts aggregating to Rs.50 lakh & above to be reviewed every six months and independent advice obtained from external Consultants.
 - All cases involving amounts in excess of Rs.10 lakh reviewed on annually.
 - All cases below Rs.10 lakh examined periodically internally or externally (if required).

Also ensure implementation of AS 29 - Provisions, Contingent Liabilities and Contingent Assets.

18. For Segment reporting according to Accounting Standard 17, the company's business is classified into three business segments, Generation loans, Transmission and Distribution loans, and Others.

B. Check list for Taxation matters:-

19. Check that policies laid down for Income Tax Compliance are followed by Taxation Division.
20. Liabilities of Income Tax are determined correctly and Income Tax returns are filed as per the requirement. Accounting Standard (AS 22) - Accounting for taxes on Income is also followed for computing liability of income tax.
21. Advance Tax are computed correctly by taking into consideration all accrued income and are paid on due dates.
22. The procedure and rates for deduction of Tax at Source from all the payments/liabilities is followed as per the requirement of relevant section of Income Tax Act 1961. TDS certificates are issued within the below mentioned timeliness as per the present norms. Any change in the present norms would be taken care of by the respective divisions responsible for deducting TDS:

Tax Deduction on	Format	Time limit
Salary	Form 16	Within one month from end of financial year
Non-Salary	Form 16A	Within one month from end of month in which credit was given or amount paid
Non-resident in case tax is borne by deductee	Form 16A	Within one month from end of the month in which credit was given or amount paid
Tax Collected at Source	Form 27D	Within one month from end of the month in which credit was given or amount paid

The TDS certificates are dispatched to all such persons from whom tax has been deducted through courier and ensure receipt of proof of delivery. Similarly all the required TDS Certificates are collected by the required timeliness. The following aspects are verified on receipt of TDS Certificates:

- REC PAN, name & address is correctly mentioned on the certificate.
- Issuer's TAN is mentioned on the certificate.
- Issuer's address is mentioned on the certificate including PIN code.
- Amount mentioned in the TDS certificate matches with the amounts as per books of accounts.

23. Wealth tax has been deposited and wealth tax return has been filed within due date.

24. Deposit of Service Tax:-Check that the procedure prescribed are followed by the Division as detailed below:-

25. Procedure for Deposit of Service Tax.

S No.	Activity	Responsibility
1.	<ul style="list-style-type: none"> ➤ Maintain a Service Tax register (As per Service Tax Act/Rules) ➤ Update the Service Tax register on rendering of taxable services or collection of revenue against the services rendered. ➤ At the month end arrive at the net service tax payable after taking into account the credits availed as per the Service Tax Credit Rules. ➤ Make a Control Bank Payment Voucher (CBPV) ➤ Forward the CBPV alongwith Statement of Service Tax to the Banking Section. 	Concerned Section

2.	<ul style="list-style-type: none"> ➤ Based on the CBPV, prepare the cheque. ➤ Forward the Cheque along with the CBPV to the CAT Section. 	Banking Section.
3.	<ul style="list-style-type: none"> ➤ Reconcile the amount of Service Tax with the ledger accounts maintained in the accounting software. ➤ Prepare 4 copies of TR-6 challan (as per format ST2) and deposit the Cheque alongwith the same in the designated Bank by the 5th of the following month and in case of March by 31st of March. ➤ Obtain the 2 stamped copied of TR-6 challan from the bank. ➤ File the stamped copies of the TR-6 challan monthwise. 	CAT Section

26. Procedure for Filing of Service Tax Returns.

S. No.	Activity	Department
	<ul style="list-style-type: none"> ➤ Prepare in quadruplicate half yearly return of service tax in Form ST-3 (as per format ST3) ➤ Attach one copy of TR-6 alongwith the triplicate copy of the return for each month and second copy with the fourth copy of the return. ➤ Obtain approval from the competent authority. ➤ Ensure that the return in triplicate is filed with the Central Excise Commissioner by 25th of following month of the half year and an acknowledgement is received on the fourth copy of the return. ➤ Document the return alongwith one copy of TR-6 month wise alongwith the statement of service tax amount calculated. 	CAT Section

Reporting of financial statements

- According to Clause 41 of the Equity Listing Agreement, all listed entities shall disclose:
- On standalone or consolidated basis, their quarterly (audited or un-audited with limited review), financial results within 45 days from the end of every quarter.
- Audited annual results on stand-alone as well as consolidated basis within 60 days from the end of the financial year for such entities, where they opt to submit annual audited results in lieu of the unaudited financial results with limited review for the last quarter.
- In respect of half yearly results – Company is required to submit to the SE, a statement of assets and liabilities as at the end of the half-year by way of a note as a part of its audited / unaudited financial results in the prescribed format.
- In respect of annual results – when a company opts to submit un-audited financial results for the last quarter, statement of assets and liabilities as at the end of the financial year should be submitted along with audited financial results for the entire financial year as soon as they are approved by the board of the Company.
- According to RBI Guidelines for Asset-Liability Management (ALM) system in NBFCs, the company is required to submit half yearly returns in ALM-Annexure I, II and III to the Reserve Bank.

Any change in the above reporting requirements would be the responsibility of the official conducting the activity.

8.2 Pay Bills and Establishment

Activities of this division includes following:-

- a) Salary & allowances
- b) Long term Advances to Employees
- c) Medical reimbursements
- d) Leave Travel Concession
- e) Tour/Transfer TA Claims

SALARY & ALLOWANCES

To Check that:

- 1) Office order and related documents on first appointment as regular/ deputation/contract is maintained.
- 2) Updation i.e. addition or removal of data on appointment or retirement/resignation in computerized pay roll system/Supported by HR orders.
- 3) Increase on account of increments, or DA rise are in consonance with the DA circulars and increment dates.
- 4) In case of employees under suspension the pay & allowances are regulated correctly in accordance with the orders of competent authority and also the standing orders/disciplinary rules, necessary certificates of non-employment has been produced by the employee under suspension; that deductions from subsistence allowance is made correctly.
- 5) Declaration from employees giving details of savings for claiming deduction Under Income Tax Act, 1961
- 6) Incentive payments are regulated with rules of the schemes governing payments.
- 7) Leave encashment disbursed as per leave sanction order.
- 8) Recoveries on account of PF, EPF, House rent, excess rent, group insurance & income-tax are done correctly and remittances made in stipulated time.
- 9) Proper system exists for deduction for pay as per the data generated by Time Keeping Machine/register in case of manual records from Personnel Dept.
- 10) Proper system exists for deduction for pay in respect of Half Pay Leave, Extra ordinary Leave.
- 11) Removal of data of employees retired/resigned from salary bill and there exists a proper system to delete the name from the pay bill forthwith & No Objection Certificate obtained before

releasing final payments.

- 12) Recording of each month salary and other taxable components like performance incentive, ex-gratia, leave encashment, LTC encashment, and lump-sum allowance paid against LTC in a salary register/software.
 - 13) There exists a proper system of intimating the salary section of the recovery to be effected for private use of transport and telephone expenses over and above the entitlement.
 - 14) Advance against salary paid are properly sanctioned and recovered from the following month.
 - 15) Income-tax has been deducted on average basis, Form 16H is obtained for deduction of tax at lower rate. Form 16A issued and Quarterly and yearly returns are filed in the prescribed forms with the Income tax Dept regularly.
 - 16) Outstanding liability have been provided towards salaries and allowance due but not paid during the year.
 - 17) Required provisioning on account of Leave encashment, gratuity, medical & other facilities payable during service or after retirement are made according to provisions of Accounting standard 15- Retirement Benefits.
 - 18) Accounting Manual also prescribes the following:
 - a. To create new file for each employee this is arranged name-wise or as per employee-code.
 - b. To issue pay fixation order stating the scale of pay and date of increment as per the offer of appointment in case of new recruits and revised pay fixation in case of promotions.
 - c. To issue Last Pay Certificate in case of employee transferred.
 - d. Before processing of pay-roll for the month update attendance and leave record.
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19) LONG TERM ADVANCES TO EMPLOYEES

- a. Loan disbursed after issue of certificate by HR towards execution of required documents
- b. Details of loan disbursed and EMI to be deducted have been recorded in Pay roll software and employee-wise and Loan wise sub-ledger is being generated. Deduction of EMI, if any, is ensured while payroll processing.
- c. Interest accrued is accounted annually.

20) MEDICAL REIMBURSEMENT

Presently the following policy is in operation for medical reimbursement. Any change in the policy would be the responsibility of the official disbursing payments.

- Copy of Family declaration accepted by HR Department.
- Eligibility and ceiling as per entitlement.
- Details for payment for OPD treatment of upto Rs. 15000/- p.a and more than Rs. 15000/- p.a. included in taxable salary of the employee.
- Medical claims are substantiated by medical bills and other supportings.

21) LEAVE TRAVEL CONCESSION

- a. To verify whether the claim is countersigned by HR Department.
- b. Eligibility for encashment as per list of members.
- c. Claim for actual travel as per entitlement.
- d. Encashment and Lump sum reimbursement taken in taxable limit.

22) TOUR/TRANSFER CLAIMS

- a. Payment of advance as per approved tour programme.
- b. Claim as per TA/DA rules.
- c. Claim submission within the defined time from return of tour.

ADVANCES FOR PROCUREMENT & SERVICES.

To Check that:

1. Approval with delegation of powers.
2. Booking of advance in proper head/sub-head of account.
3. Advance register is maintained indicating party-wise payments
4. Proper system exists for preparation of monthly schedule of advances.
5. TDS has been deducted from the advances given against transactions covered under deduction of TDS.
6. Follow-up action for adjustment/recovery.

DIRECT PAYMENT/ADJUSTMENT FOR PROCUREMENT & SERVICES

- To verify approval with delegation of powers.
- Expenses incurred are within the budgetary limits or specific approval as per DOP has been obtained.
- Proper Purchase procedure for procurement of goods/services has been followed.
- Certificate of concerned division has been obtained that work has been executed as per Purchase order before releasing the payment.
- Provision of penalty clause has been considered by concerned division before giving certificate that work has been executed as per Purchase order.
- Advances wherever given have been adjusted.
- Payments are made on the basis of verified bills along with supporting.
- Separate registers for Capital and revenue expenses are

maintained.

- TDS, service tax, Work Contract tax has been deducted and deposited wherever applicable as per the existing laws and proper registers maintained.
- Certificate for the tax deducted has been issued and quarterly & yearly returns as applicable have been filed.

8.3 Lending Operations and Recovery Division

Lending Operations and Recovery division Section is primarily responsible for concurrence of loan, acceptance of escrow, 1st installment after compliance of pre-disbursement conditions and subsequent installments. Rate of lending from time to time, upfront fee, penalty, delay interest etc has to be taken care by this Section. This section is not only responsible for loan accounting but for timely recovery and pursuing / coordinating legal division for default cases. It has to ensure compliance of prudential norms and NPA norms of the Corporation.

- i. A cutoff date within which the repayment of demand or call loan shall be demanded or called up;
- ii. The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cutoff date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
- iii. The rate of interest which shall be payable on such loans;
- iv. Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
- v. The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;
- vi. A cutoff date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
- vii. Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

No non-banking financial company shall lend against its own shares. Any outstanding loan granted by a non-banking financial company

against its own shares on the date of commencement of these Directions shall be recovered by the non-banking financial company as per the repayment schedule.

RELEASING OF LOAN

1. Whether all the documents required for release of the loan as per the terms of sanction / Legal Manual of the Company have been obtained/executed by the concerned ZO/PO/division at CO.
 2. Whether Sanction letter in the prescribed format was issued by the concerned ZO/PO/division at CO.
 3. Whether any special condition or relaxation from the prescribed terms has been put in sanction letter before release of 1st /2nd and subsequent installment and whether all terms and conditions have been complied with.
 4. Whether approval obtained for relaxation of the terms.
 5. Whether the ERP system updated with the terms of relaxation granted.
 6. Whether, where required, ALM department informed of the terms of relaxation.
 7. Whether code number of scheme/category has been allotted to the scheme.
 8. Whether all columns of the system checklist have been filled by PO/ZO.
 9. Whether approval of competent authority has been obtained for release of loan
 10. Whether extension of scheme period has been obtained from the competent authority.
 11. Whether details of scheme provisions (Physical and financial) and progress admitted prior to present claim has been furnished.
 12. Whether final monitoring of scheme pre-requisite to the release of loan has been done.
 13. Whether deviation, if any, has been approved by the competent authority.
 14. Whether the loan proposed to be released within the sanctioned
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loan amount.

15. Whether the claim has been processed within the prescribed period.
16. Whether all loan details showing details of claim received, claim processed and date of sending the claim to Loan Section/actual date of release have been updated in the ERP system.
17. Whether state-wise/category-wise details of claims received are maintained.
18. Whether applicable cost-data has been adopted in the claim.
19. Whether the cuttings/corrections have been countersigned by the authorized officer of the utility.

LOAN ACCOUNTING & RECOVERY

1. Whether records are maintained of all disbursements.
 2. Maker Checker exists for updating the interest rates in the system masters.
 3. Schedule of repayment of loans are prepared and tracked for recovery on time.
 4. Verify that demand note has been timely raised by unit in accordance with loan agreement;
 5. All interest receivables are accurately calculated and recorded in the appropriate period.
 6. All loan repayments are recorded in the appropriate period.
 7. Verify excess / short recovery of dues;
 8. Verify computation of re-schedulement of loans made by REC and if the same is in accordance with the approval of competent authority;
 9. Verify the monitoring mechanism for disbursement of loans in accordance to the physical works.
 10. Verify appropriate amount received from the borrower and properly appropriated in various heads i.e. principal, interest, penal, delay etc. If not, financial impact thereof on the borrower / REC;
 11. Verify interest subsidy account w.r.t. claims made to and received from GOI.
 12. Subsidy passed on to the borrower on respective due dates;
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13. Excess/shortfall, if any, in the amount over the period of loan;
14. Recovery / subsidy in case of the borrower having not commissioned the project in time;
15. Verify additional interest from the borrower has been charged in the event of non creation of security by the borrower in time;
16. Verify and suggest internal checks and controls in the system and procedures;
17. Verify end suggest internal check and controls in the system and procedures.
18. Verify the interest re-set / restoration cases.
19. Verify and indicate if there has been any case of dues having become time barred in accordance with the Law of Limitation.
20. Verify and indicate if the rebate on interest payment has been allowed in accordance with the loan agreement / policy guidelines.
21. Verify whether the dues relating to processing fee, Lead FI Fee, Facility Agent Fee, Security Trustee Fee etc. have been recovered from the borrowers wherever applicable as per the terms of the Loan agreement and as per the policy of the Corporation.
22. Verify that in case of delay of drawl, commitment charges have been levied on the borrower. Also verify the calculation of commitment charges.
23. In case of default / delay in payment of demand, verify that penal interest on interest etc. have been charged from the borrower as per loan agreement. Also verify the correctness of interest amounts so charged.
24. Verification of Interest accrued but not due/interest accrued and due calculations.
25. In defaults in repayments to verify that the corporation has initiated suitable action in accordance with the laid down policies to recover the over dues.
26. Verify that the NPA's have been classified in accordance with the prudential Norms.
27. Verify that Subsidiary Ledgers as per loan accounting system reconcile with the General Ledger.
28. Verify the adherence to accounting policies of REC and compliance of relevant Accounting standard(s) issued by ICAI.

29. Verify the adequacy of internal checks and controls in the system and procedures.
30. Scrutiny of General Ledger heads of accounts relating to the Loan disbursement & Recovery.
31. Verify availability of balance confirmation of loans from the borrowers.
32. Verify the validation checks built in the system for disbursement of loans.
33. Check the system logs to identify attempts of authorised access to ERP system.
34. Verify the security system in the Loan Accounting System.
35. Any other work pertaining to the above.
36. A post sanction appraisal review is conducted to monitor the financial health of the borrowers. The following activities may be reviewed during the post sanction appraisal review:
 - a) Effectiveness of post sanction tracking mechanism (events / due dates).
 - b) Adequacy, timeliness and accuracy of Progress Report.
 - c) Accuracy and completeness of Register for Asset Reviews, etc.
 - d) Accuracy and timeliness of interest reset.
 - e) Accuracy of amendments / modifications to the repayment schedule.

8.4 RESOURCE MOBILISATION- DOMESTIC AND FOREIGN CURRENCY BORROWINGS

(i) Bonds

1. Approval of the Board of Directors for the raising of funds from Domestic market.
 2. Check whether the borrowings proposed to be made are within the Borrowing limits of the Corporation as laid down under Section 93 (i) (d) of the Companies Act, 1956.
 3. Whether SEBI Guidelines for the issue of Bonds on Private Placement basis have been followed or not.
 4. Check the calculation of interest paid on application money/Bonds and deduction of tax thereon.
 5. Verify whether the credit rating fee, trustee fee, listing fee, arranger's fee etc. have been paid as per the agreement or not.
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6. Verify whether the Stamp Duty paid/payable on bonds has been calculated at the correct rate.

(ii) Loans (Short, Medium & Long term)

1. Verify the quotations given by the various banks/FIs/ICD for the loans to be extended by banks to REC alongwith the quantum and the validity of the quotation.
2. Verify whether the proposed borrowings fall within the borrowing Limits as laid down by the Corporation u/s 293(1)(d) of the Companies Act 1956.
3. Verify the approval of the competent authority for the withdrawal of Loan and execution of documents.
4. Verify the implementation of Accounting Standard

(iii) Commercial Paper

1. Whether valid credit rating before the issue of commercial paper was taken.
2. Verify the quotations given by the banks for the commercial paper.
3. Verify the Issuing and Paying Agent (IPA) agreement entered into with the bank.
4. Verify whether the correct amount of stamp duty was deposited with the Treasury as per the provisions of Stamp Duty Act, 1899.
5. Check the amount received by the Corporation on the date of issue of Commercial Paper taking into account the rate of interest at which Commercial paper was issued.

(iv) Foreign Currency Borrowings

1. Check whether ECB has been raised as per RBI policy and all the required approvals i.e. Board Approval, RBI approval, President Approval etc. were obtained.
2. Check the terms of the borrowing as per the agreement entered into with the foreign lenders.
3. Check whether the finance charges like management fees, agency fees and other expenses etc. are paid on date and are calculated correctly as per the terms as mentioned in the Agreement.
4. Check whether funds drawn have been utilized for the

purpose as mentioned in RBI approval.

5. Check the calculation of withholding tax and deposit of the same with the Income tax Authorities within the stipulated time period after complying with all the requirements.
6. Check the timely submission of Returns to RBI.
7. Check the procedure being followed by the Department for converting foreign currency into INR and vice-versa.
8. Check the implementation of Accounting Standards 11 – The effects of Changes in Foreign Exchange **Rate**.

2. Any Other Borrowing From Time To Time

GENERAL

1. Compliance of REC Accounting Policies and relevant Accounting Standard(s).
2. Scrutiny of General Ledger heads of accounts relating to the Resource Mobilisation.
3. Verify the adequacy and efficacy of the internal controls and checks in the system. Any deficiency is to be reported.

ASSETS LIABILITIES AND RISK MANAGEMENT:

1. Review of the effectiveness of operational controls relating to FX transaction.
2. Ensure that all the currency risks have been identified and are being managed in accordance with the laid down Policies and Procedures.
3. Ensure that the activities of the currency risk management have not exposed REC to risks, which have not been permitted in the Policy or have not been reported to the senior Management.
4. Ensure that any changes made to the Policies and Procedures have been properly assessed from the risk perspective before being operative.
5. Verification of hedging contracts.
6. Verify the compliance of relevant Accounting standard(s) issued by ICAI.
7. In case there is a large gap in resource raised and deployed, check volatility of the market and whether interest rate

are going upward/ downward, to see if higher resources raised are justified.

INVESTORS' SERVICES

(i) Bonds

1. Check the calculation of interest on the bonds raised by the Corporation and ensure whether all such payments were made on due dates.
2. Whether the call option was exercised by the Company on due dates after taking into account the then prevailing market interest rates and the approval of the competent authority was obtained or not.
3. Whether action has been taken by the Corporation for the release of charge in respect of Secured Bonds which have been fully redeemed by the Corporation.
4. Verify the amount transferred to Investor Education Protection Fund in terms of the provisions of the Companies Act, 1956.
5. Verify whether the amount in respect of unpaid Interest Warrants is withdrawn from the bank as per the agreement entered into with the bank.
6. Verify the reconciliation of interest warrants accounts.
7. Verify whether the proper records of all the revalidated interest warrants are maintained.
8. Verify whether the register of bond holders, Index of Bonds holders are maintained as per the requirement of Companies Act.
9. Verify wherever the physical bond certificates have been issued, whether the same have been cancelled on redemption and retained in safe custody.
10. Verify the payment of guarantee fee wherever the guarantees have been taken by Corporation.

(ii) Foreign Currency Notes/Loans

1. Verify the calculation of interest paid, withholding tax etc. on foreign currency loans raised by the Corporation and ensure that the same have been paid in accordance with the foreign currency loan agreements entered into with the lenders on the due dates.
2. Compliance of terms and conditions of the Loan Agreement/note

purchase agreement.

3. Verify the payment of guarantee fee wherever the guarantees have been taken by Corporation.
4. Check the implementation of Accounting Standards 11 – The effects of Changes in Foreign Exchange Rate.

(iii) Long/Medium/Short Term Loans

1. Verify the calculation of interest paid on the loan on each due date as per loan agreement entered into with the lender.
2. Compliance of terms & conditions of Loan Agreement.
3. Verify the implementation of Accounting Standard 16 – Borrowing cost.

(iv) Commercial Paper

Verify the payment of commercial paper on the due date of maturity.

GENERAL

1. Verify that subsidiary ledgers are reconciled with the general ledger.
2. Verify the adherence to accounting policies of REC and compliance of relevant Accounting standard(s) issued by ICAI.
3. Scrutiny of General Ledger heads of accounts relating to the investor Services Unit.

8.5 Investments of Surplus Fund

To check that –

1. Check that all investments have been made in accordance to the Investment policy of the company.
 2. Check that all investments are done after obtaining approval of competent authority and investment decisions are properly documented and filed.
 3. Check that the premature disinvestments or extension of investment period is done after obtaining the approval of competent authority.
 4. Verify that all previous investments maturing on the date of investments have been considered while determining the surplus investible funds.
 5. Ascertain whether the procedure prescribed for inviting offer of
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- placement of funds in securities is followed.
6. Check that amendments/deletion in the list of empanelled institutions is done only after obtaining the approval of Competent Authority.
 7. See that a separate file/album is maintained of the names, designation, address, phone numbers and specimen signature of authorized signatories of other Banks/FIs with whom investments are made
 8. Check whether a system exists to ensure that the acknowledgements/interim deposit receipts/DRs etc. received are in the prescribed form, and are signed by authorized signatories.
 9. Check that valid instruments/documents/securities evidencing the investments are received and kept in record.
 10. Check that record is maintained of all the transactions and tracked for realisation of maturity proceeds on due dates.
 11. Ascertain that the subsidiary ledgers are written up promptly when the investments or disinvestments are made.
 12. Verify that the vouchers are signed by authorized officers and are normally prepared on the same day when investments are made or realized.
 13. Check that the interest received is correct and any short receipt are taken up promptly.
 14. Check that refund of excess interest received is made under the authority of the department head.
 15. Check that accrued interest are calculated correctly. Income from Investment is accounted as follows:
 - a) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis: Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the non-banking financial company's right to receive payment is established.
 - b) Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken into account on accrual basis. Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.
 - c) Income on securities of corporate bodies or public sector
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undertakings, the payment of interest and repayment of principal of which have been guaranteed by Central Government or a State Government may be taken into account on accrual basis.

16. Check whether TDS have been booked correctly.
17. Verify that confirmations of balances are obtained every year and the procedure followed is in accordance to the guidelines issued by Institute of Chartered Accountants of India.
18. See that the investment related registers as required under Companies Act, 1956 are maintained and written up to date.
19. Check that prescribed investment procedure is followed and deviations are made only after obtaining approval from Competent Authority.
20. Check that the instructions/guidelines issued by RBI, DPE, other Govt. Departments, Corporation from time to time are being properly filed and complied with.
21. To ensure that investment /disinvestments are made as per the daily requirement of funds received from operational departments.

8.6 Banking

1. Verify that the Bank Books are written up daily and checked up by the department in charge.
 2. Detailed vouching of the bank transactions is done.
 3. See that all receipts are entered on the date of receipt and are duly supported by cash receipt vouchers, pay- in slips, bank advices etc.
 4. Check that the day-to-day bank balances are kept within reasonable limits.
 5. See that the cheques are made out and issued only on the basis of payment vouchers signed by authorized officers and see that the fact of issue of cheque is recorded on the voucher by rubber stamp or otherwise.
 6. See that the surplus funds statements are made out daily and sent to investment department.
 7. See that proper record/register is maintained of the cheques delivered and no signed cheque lying without despatch.
 8. See that the manual bank book tallies daily with the bank book of
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- accounts section.
9. See that cuttings and over writings in manual bank book are properly attested.
 10. See that counter-foils of cheques issued and pay-in-slips are preserved/kept in proper custody.
 11. See that all cancelled cheques are defaced and preserved for verification, the bankbook carries details of cancelled cheques for cross-verification or a proper register is maintained of the cancelled cheques.
 12. See that proper record for cheque books received, issued and balance in stock is maintained. The cheque is immediately impressed with 'account payee' and 'not negotiable' rubber stamp.
 13. See that the department is using reverse carbon and leaving no space while writing cheques.
 14. See that cheques are signed by an officer other than the officer who signed the payment voucher as authorized signatory. See that the cheque issue register is authenticated by the officer in charge of banking section before putting up for signature of cheques by authorized signatory.
 15. See that immediate action is taken of the wrong/unreconciled debit/credit shown in the bank reconciliation statement.
 16. See that the department reviews the distribution of duties at reasonable interval of time to comply internal control measures.
 17. See that Bank reconciliation statement is prepared periodically and signed by the authorized officer.
 18. See that entry debited/credited by Bank/Bank charges are properly looked into by the Banking Section.
 19. See that Daily management report is prepared and submitted to the higher authorities on natural facts.
 20. Check that audit trail of updations/modifications is available in the system.

8.7 Generation Division

Audit of the generation Division may be conducted considering following issues:-

Loan Appraisal

a) **Review of Entity Appraisal** - Entity appraisal conducted by Project Appraisal Division group may be reviewed as per guidelines issued covering identification of core promoter, business analysis, Market Analysis and Financial analysis. Special attention requires for reviewing scoring process, calculation of DSCR, Project IRR, ROCE and Management Analysis. Following may be seen:-

- Borrower request letter with required enclosure, processing fee etc for project financing;
- Check that the project proposed is in accordance with the priority area of funding;
- Check that project financed / to be financed by the Corporation meet the lending criteria as per BOD;
- The project sanction is within the exposure limits as fixed by BOD.
- Check whether credit rating of the borrower has been done based on the parameters as approved by BOD;
- Check the method of calculation FIRR, EIRR and the projections of the benefit which will accrue to SEB / implementing agency on the completion of the project;
- Check whether the entity appraisal of the projects is being done as per the policy of the Corporation and financial parameters are being evaluated as per accepted accounting norms;
- Check that a project for which documents are not received within the stipulated period are reported to appropriate authorities for cancellation or otherwise or extension; Whether insurance of assets in which charges has been created is taken and same has been renewed from time to time; Upfront fee, if applicable is recovered

b) **Review of Technical Appraisal** - Technical Appraisal conducted by Project Appraisal Group has to be reviewed based on approved guidelines and prevalent practices of REC. Depth analysis has to

be conducted for cost / MW, Project Feasibility, Fuel Supply agreement, valid power purchase agreement, O&M, valid EPC contract along with Water Availability, Power Evacuation Arrangement etc.

c) **Statutory Clearances:** During audit, statutory clearances like AAI Clearance, Environment / Forest and R&R Clearances, Other state clearances like land allotment, Pollution clearance, Transport clearance and other Non-statutory clearances etc. has to be established;

d) **Recommendation for financing:** It may be reviewed that recommendation of the division are correlated with Sensitivity Analysis, Project Rating Matrix, Risk Analysis and Mitigation and necessary condition i.e. pre-sanction, pre-disbursement, post disbursement etc have duly been taken care.

e) **Review of Delegation of Powers:** It may be verified that while sanctioning the project, delegation of powers have been adhered. It may also be verified that all facts and figures of Project Appraisal, limitations/ waivers and pre-disbursement conditions etc. have been duly incorporated in the memorandum to the Board of Directors or any other authority competent to approve the project. The approval of Competent Authorities / BOD Minutes, sanction letter and amendments, if any, also needs to be verified by the audit team.

Loan Documentation

a) **Verification of Loan documents** executed for financing of the project including checklist for documentation, Loan Agreement, MOU, Hypothecation/ Mortgage Deed, Pledging of shares, Escrow agreement, TRA etc.

b) **Common loan agreement (CLA)** in case of consortium financing- to see that REC's separate/ special terms (if any) are incorporated or not.

c) **Vetting by Legal Division:** To see that Documents are vetted by lender legal counsel / Legal Division.

- d) **Filing of charge with REC:** It may be verified that the charge for existing and future assets is filed with ROC in time.
- e) **Payment of stamp duty:** It may be verified that required Stamp Value as per the state stamp act is paid.
- f) Signature of signatories and their authorization.

Loan Disbursement

- a) **Release of 1st Installment:** Various terms and conditions are required to be verified before releasing of first installment like execution of loan documents, arrangement of escrow mechanism, fulfillment of pre-disbursement condition, filing of charges with ROC, clearance from lead financier; creation of required security, payment of lead financier fee, imposition of additional interest, commitment charges etc.
- b) **2nd and subsequent release:** In subsequent claims review of project progress, QPR, LE reports, engineer reports and analysis of progress while releasing the claim needs to be checked.
- c) Verify the system checklist for the claim release and LE / our engineer's progress reports.
- d) Post sanction appraisal review is required to be conducted by the Finance division to monitor the financial health of the borrowers.

Project Monitoring

- a) **Pre-sanction field visits** - to verify the facts given in DPR, feasibility, Project management team etc.
 - b) Post sanction field visits - to verify the implementation of schemes as per declaration given in the claim, creation of assets etc. It may be verified that the monitoring guidelines are followed while conducting monitoring and reports are timely submitted.
 - c) Verify the Monitoring reports, LEs reports, entries in monitoring register, Monitoring schedule
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- d) LE role in the monitoring and outcome of the reports submitted by LE's
- e) The audit team may verify on test cases that the discrepancies observed during monitoring is being watched, rectified or recovered during ensuing claims.
- f) Monitoring of Trust & Retention Account
- g) Verification of periodical reports submitted by the borrower and its examination w.r.t. terms and conditions of the agreement
- h) Verification of cash flow and utilisation of funds statements as furnished by Lenders' financial advisors;
- i) Verification of revision in project cost / implementation schedule due to time and cost overrun;

Records to verify

- a. **Scheme incoming resister-** with the status of total pending schemes and reason for pending etc.
- b. **Fee Register** - Details of fee received like processing fee-I and II, Upfront fee, Lead Financer fee, Additional interest levied etc. with payment details date wise.
- c. **Claim Register:** Scheme code wise entry of claim releases, particulars of all scheme details on one page with all disbursement details and schemes period extension etc.
- d. **Claim Diary Register:** to verify the details of claim received and fund release / recommended with amount etc. A W1-02 Delay Register is also required to verify to know the reason for delay in claim processing, if any and a review by HOD etc.
- e. **Monitoring Register** - To records the monitoring done with scheme details and type, monitoring reports issued and person detail etc.

- f. **Annual Review of Project and Entity** - to assess the status of financial strength and weaknesses of entity on continual basis and in order to protect the interest of REC. Review of feedbacks given by Project Monitoring Team and action taken etc.

Subsequent Appraisal / Review:

- a) Promoter / implementing company is being reviewed by the Project Appraisal Group before sanctioning of project. A periodic review of the promoter company and implementing company is to be carried out to update the status considering the further new projects, subsequent financing position of the company, market scenario of the industry in which promoter company operates etc.
- b) REC could also revisit its sanction considering the latest review to increase / decrease the loan component.
- c) During audit, audit team may review that the periodic appraisal is being done by the Project Appraisal Group to capture the latest information about financial performance of promoter / implementing company, status of the industry, fresh projects launched by promoter, debt equity ratio etc.

Project Specific Review:

Certain project specific action has to be reviewed by the audit team e.g. in case of thermal project, coal linkage is the most important issue to appraise whereas in case of hydro project, water availability and study on future aspects of water source etc has to be reviewed. Therefore, project specific action has to be reviewed based on logic and law as per available information by the Audit Team.

Policy & concurrence:

- Verification of fixation of lending rates;
- Policy circular issued are in consonance with operational policy statement & prudential norms etc;
- Verification of escrow account of the borrower w.r.t. tripartite agreement entered into among REC, borrower and the bankers;

8.8 Transmission & Distribution Division

Audit of the T&D Division may be conducted considering following issues:-

Loan Appraisal

- a) **Review of Entity Appraisal** - The Transmission and Distribution Sector is presently under domain of Government Company, state electricity board etc, therefore, the entity appraisal is presently carried out by Project Appraisal Group annually and rating notified with specific exposure norms for all companies. Accordingly, the operational division has not much to do but to restrict the exposure upto the approved limit. In case of new private party, the application has to be diverted to PAD for entity appraisal which needs to be conducted based on approved guidelines.
- b) **Review of Technical Appraisal** - Presently, Project Offices are handling this activity and submit the appraisal note with recommendation to Corporate Office for sanction. T&D Division, Corporate Office, thereafter, review the appraisal and recommend the scheme to Screening Committee for approval. Screening Committee considers the scheme and approves / forward to BOD for approval based on delegation of powers. The audit team may verify technical feasibility, Project requirement justification; Cost data adoption, Credit Exposure balance, Scope of work, Loan amount sanction, Escrow, TRA Account, IRR etc.
- c) **Review of Delegation of Powers:** It may be verified that while sanctioning the project, delegation of powers have been adhered. It may also be verified that all facts and figures of Project Appraisal, limitations/ waivers and pre-disbursement conditions etc. have been duly incorporated in the memorandum to the Board of Directors or any other authority competent to approve the project. The approval of Competent Authorities / BOD Minutes, sanction letter and amendments, if any, also needs to be verified by the audit team.
- d) **Sanction of loan** verify the minutes of sanction of competent authority, communication with PO/ ZO, Sanction letter issued by

PO/ ZO and subsequent amendments, Terms and conditions mentioned including special terms if any, limitations/ waivers and pre-disbursement conditions etc.

- e) **Delay in sanction:** Audit Team has to verify that the scheme is being sanctioned within norms prescribed in fair practice code approved by Board of Directors. Any delay has to be reported.

Loan Documentation

- a) **Verification of Loan documents** executed for financing of the project including checklist for documentation, Loan Agreement, MOU, Hypothecation/ Mortgage Deed, Pledging of shares, Escrow agreement, TRA etc.
- b) **Terms / conditions incorporated:** It may be verified that all the terms and conditions are duly incorporated in the sanction letter as well as loan documents.
- c) **Vetting by Legal Division:** To see that Documents are vetted by lender legal counsel / Legal Division in case formats are not pre-approved.
- d) **Borrowing Powers of borrower:** It may be verified that borrowing powers have been checked by the operational division.
- e) **Filing of charge with ROC:** It may be verified that the charge for existing and future assets is filed with ROC in time.
- f) **Payment of stamp duty:** It may be verified that required Stamp Value as per the state stamp act is paid.
- g) Signature of signatories and their authorization.

Loan Disbursement

- a) **Release of 1st Installment:** Various terms and conditions are required to be verified before releasing of first installment like execution of loan documents, arrangement of escrow mechanism, fulfillment of pre-disbursement condition, filing of
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charges with ROC, creation of required security, etc.

- b) **2nd and subsequent release:** In subsequent claims review of project progress, QPR, LE reports, engineer reports and analysis of progress while releasing the claim needs to be checked.
- c) Verify the checklist for the claim release and LE / our engineer's progress reports

Project Monitoring

- a) Formulation of Annual Monitoring Plan as required by Project Monitoring Guidelines issued by REC detailing the description of schemes, schedule etc.
- b) Achievement of Monitoring w.r.t. targets
- c) Verify the Monitoring reports and correlation with claim released considering the discrepancies observed during monitoring;
- d) Monitoring register is maintaining containing all the relevant details.
- e) The audit team may verify on test cases that the discrepancies observed during monitoring is being watched, rectified or recovered during ensuing claims.

Slow Progress Schemes:

A scheme wherein no claim released during last one year is earmarked as slow progressed scheme. Action has to be taken towards revival or closure of such scheme as per guidelines issued. The audit team has to verify that the required action is being taken by PO/ CO on such schemes.

Non Starter Schemes

As per guidelines, non starter schemes are schemes wherein no progress achieved within six months of 1st disbursement (advance). In such case, the scheme has to be withdrawn within next six months with penal interest. Quarterly reporting to BOD for such schemes has to be done. The audit team has to verify the action taken on the issue.

Closure of scheme:

As per guidelines, on completion of scheme period, disbursement of loan sanctioned or achievement of physical progress, the scheme has to be closed and any unutilized amount has to be refunded by the borrower within reasonable time.

Audit Team has to verify that the closure of scheme is in practice and targets are achieved. Moreover, unutilized amount, if any, persuaded and recovered timely.

8.9 RGGVY Schemes

Audit of RGGVY Division has to be conducted at PO level and approval has to be verified from CO level:-

Loan Appraisal

- a) Review of DPRs - District wise DPRs were submitted by utility where scope of work is defined with the relevant cost data.
- b) Review of Scheme Appraisal - Technical feasibility, Project requirement justification, Cost data adoption, Scope of work, Submission of village diagram, Notification, formation of District Electric Committee, Appointment of Nodal officer, Loan amount calculation, site visits for verification of DPR etc.
- c) Sanction of loan recommendation of PO / CO, Minutes of monitoring committee of MOP conveying sanction of scheme, Sanction letter issued by PO/ZO, Acceptance of state. Review the deviation in the cost of award, and informed to REC, recommendation of PO with proper justification keeping quantity as same, Approval of monitoring committee for revised cost and issue of revised sanction letter.

Loan Documentation

- a) Presently no loan documents except MOU / MOA between REC, State Government and Electricity Board / Discoms are being done. Review of MOU signed between REC, Tripartite/ Quadripartite Agreement.

Loan Disbursement

- a) Release of 1st installment: review the recommendation of 1st installment, NIT/ Award of work or Undertaking by Implementing Agency to award the work within 7 days to a Turn Key Contractor, Claim submitted by State Govt., Claim checklist, recommendation of PO/ CO.
- b) In subsequent claims review of utilization certificate submitted by State Govt. with proof of 80% of fund were utilized/ transferred to the turn key contractor. Review of QPR, Putt chart, Progress reports submitted by IA, Appointment of Third party monitoring, Franchisee development, review of progress submitted.

Project Monitoring

- a) Appointment of third party monitoring and reports submitted to REC.
- b) Review of monitoring done by third party and verify the progress reported by Implementing Agency.
- c) Review the monitoring reports verifying the quality of the equipment used and adherence of REC quality standards.
- d) Three tier monitoring under 11th Plan: Three tier monitoring, one by MOP, 2nd by REC and 3rd by implementing agency has to be undertaken. Audit Team may verify that required monitoring is being undertaken by the agencies.

Records to verify

- a) Progress report file: Record file of schemes wise progress received from implementing agencies.
- b) Claim Register / ledger: Scheme code wise entry of claim releases, particulars of all scheme details on one page with all disbursement details and scheme period extension etc.
- c) Monitoring Register: To records the monitoring done with scheme details and report issued.

8.10 International Credit (IC&D) Division

The division is responsible to tie up soft loan extended by external agencies. Presently, JBIC (Japan) and KfW (Germany) are providing soft loan to REC. After tying up of soft loans, IC&D Division explores suitable schemes with various power utilities. Accordingly, proposals submitted to external agencies for approval. On sanction various formalities like signing up of agreements, arrange government guarantee, on lending terms etc are taken up by the division.

The IC&D division operates as coordinator between external agencies, government departments, REC Project offices and other divisions of corporate office. Broadly function can be elaborated as below:-

- a) To tie up funds from external agencies,
- b) Arrange government guarantee and various approvals from MOP/MOF,
- c) Identify various schemes / projects by interaction with Project Office
- d) Technical appraisals of the scheme based on parameters of soft loan;
- e) Working lending interest rates
- f) Coordinating financial activities with Resource and Loan Division etc.

Accordingly the checklist can be formulated as :-

- Review of loan Agreement with KFW and JICA
- Review of Financial agreement of KFW and JICA
- Review of Guarantee Agreement of KFW and JICA
- Checking of claim records register, processing, no. of schemes and withdrawals etc.
- Review interest reset File.
- Submission of claim to JBIC &KFW for reimbursement of

amount already disbursed.

- File relating to sanctions of scheme under KfW and JICA
- Internal approvals of borrowing funds and their terms & conditions of KfW and JICA.

8.11 Legal Division

Legal Division is responsible for proper securitisation of loan, legal formalities regarding resource mobilisation, default cases, other court cases, and opinion on various subjects referred by various divisions etc.

To Check that:

1. Review that legal / loan documents to be entered for loan extended to borrower have been updated from time to time and any redundant clause does not exist;
2. Verify that recent amendments / RBI circulars etc are captured in the documentation of loan and other related policies;
3. Verify that in case of loans to various borrowers including consortium lending the loan documents have been executed in accordance with the Corporation's policy & procedure and all the terms and conditions of sanctions have been captured in the documents
4. Existence of policy guidelines for cases referred Legal Division
5. Existence of in-house study of cases referred to legal division with merit and demerits for suit filed by outside agencies against REC or filed by REC.
6. Review appointment of standing Counsel, scope of work and performance.
7. Procedure adopted for selection of panel of Advocates/Solicitors for outsourcing of jobs-segment wise i.e. civil matters, Tribunal, DRT and recovery from defaulters and monitoring thereof.
8. Verify the safekeeping of security documents as per the approved procedure in this regards.
9. Report the cases where documents are not executed for specific period of time from the date of sanction of loans along with the reasons thereof.
10. Verify that updation of standardization of legal documents for various types of loan is exists.

11. MIS report of all cases is submitted for review of competent authority.
12. Verify procedure for payment of Legal fees and provision for un-paid fees at the end of the year.
13. Pursuance of Legal Division towards pending court cases.
14. Proper system exists for keeping files of cases with evidences/counter replies filed with courts.
15. Verify that amendments or introduction of new laws relevant to power financing institutions are timely informed to various divisions.
16. Any other work pertaining to the Legal and Loan Documentation Units.

8.12 Public Relation / Corporate Communication

Corporate Communication is responsible for formulation of media plan towards image building exercises for the Corporation in addition to other work towards advertisements, empanelment of publicity agencies etc.

1. Review the media plan formulated by the divisions for image building exercises;
2. Verify that strategy worked out by the Division for implementation of media plan and its effectiveness;
3. See that presentation materials are purchased after approvals from competent authority for quality, quantity rate etc. and after entertaining competitive bills/tenders in accordance to the purchase procedure.
4. Review the procedure followed in selecting Advertising Agency. Examine the contract for terms that are ambiguous or detrimental to the interest of the company.
5. Budget and balance must be shown on every file before taking approval of expenditure.
6. See that proper register/record is kept or the presentation materials purchased, issued and stocks on hand.
7. See that the ad agencies/newspaper make good the errors and omissions in the ads by insertion in the next issue or by

imposing reduction in claims/payments

8. See that the ads are published within reasonable time after placement of order and before occurrence of the event, the advertisements are made with the approval of competent authority.
9. See the proper system exists for verification of bills received from the newspaper/ad agencies that the claims are genuine, and the rates etc. are as agreed/approved, and registers are maintained to prevent any double payment.

8.13 HR and Training

To check that :

1. Consolidated Manpower budget is prepared by the HR department at the beginning of the year.
 2. To ensure that appointments are made as per the sanctioned manpower and with the approval of competent authority.
 3. Review the manpower budget/sanctions for various posts and that the actual sanction position and variations are reported appropriately.
 4. Review the selection criteria w.r.t. qualification and experience, its approval, variation from earlier appointment, matching with industry etc.
 5. Examine personal files to see that they are properly maintained, all events during the employment like promotion, increments, revision of pay, incentives, awards, leave without pay, suspension, punishment, break in service etc. are available in the file, updated family particulars, nomination etc. are also available in the file.
 6. All employees newly appointed are examined medically and declared fit before being allowed to join.
 7. There is no delay in issuing orders of confirmation on completion of probation so that employees can draw increments without delay.
 8. See that promotion orders are issued only for those who have
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- been promoted by competent authority.
9. Human resource powers are allotted/distributed as per the work load.
 10. Sanctioned strength in any cadre is not exceeded.
 11. Review the fixation of pay, sanction of special allowances, incentives, awards, special pay, advance increments, honorarium etc. to see that they are in accordance with rules, sanctioned by competent authority and financial concurrence has been obtained wherever necessary.
 12. Review the cases of delay in finalization of disciplinary action in respect of employees under suspension and that the reasons for delay are brought to the notice of Director/CMD.
 13. Review the loan sanctioned to employees like HBA, conveyance loan, festival loan etc. and see that they are as per rules, sanctioned by competent authority and all the necessary documents are obtained and held in custody.
 14. Check the LTC register to see that all details regarding dependant family particulars are written up to date.
 15. To see that welfare rules have been revised periodically
 16. To see that manpower deployment is in relation to disbursement of loan for better utilization.
 17. To ensure that transfer orders are implemented as per approved transfer policy.
 18. To ensure that ACRs/APRs duly completed are received as per schedule.
 19. To ensure that reservation policy of Govt. of India for recruitment/promotion is implemented.
 20. Leave is sanctioned according to rules, properly posted in the leave records and leave balance is periodically (every half year) intimated to employees.
 21. Check the leave records with attendance, leave application and leave encashment.
 22. Test check the leave credits posted.
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23. Compensatory off is not allowed to staff who are paid OT.
24. Every month absentee statement is sent to Pay Bill Section for correct payment of salary.
25. Timely and accurate communications are forwarded to accounts are forwarded to accounts department for necessary deductions/collection.
26. Certificate of compliance with all the applicable labour laws is obtained.

Training

1. See that physical budget for training employees is prepared every year and got approved from the competent authority.
2. See that module prepared meets the requirement of the organization in tune with emerging trends.
3. See that training programmes are prepared in such a way that employees get training opportunities in variety of fields relevant to the corporation's operations.
4. See that the training programmes are communicated to employees and materials supplied in advance and are attended by employees.
5. Usefulness of training for employees. **Feedback of training is obtained from employees.**
6. Check that the training expenses are within the budget.

8.14 Administration

General Purchase Procedure - Administration

As per the present REC's policy regarding petty purchase/ repairs of an amount not exceeding Rs. 10000/- can be made after orally ascertaining competitive market and recording the statement on the body of the bill. For the purchase/repair/services of the amount exceeding Rs. 10000/- upto Rs. 100000/- through a committee of three officers including one from Finance Division. Further, any purchase involving expenditure of over Rs. 100000/- would be through tendering process.

To check that :

1. **Insurance of Assets:** The assets are insured and the insurance is valid, renewed without delay, for proper value, addition to insurable interest on procurement during the year.
2. **Stationery:** Procurement from empanelled parties at approved rates, proper stock register (for receipt and issue), check abnormal consumption, minimum balance to be maintained etc.
3. **Dispatch:** The dispatch arrangements are satisfactory for its effectiveness and efficiency. Franking machine readings are recorded at the close of every day. Test check the letters dispatched with the franking machine readings to see that there is no scope for use of the machine for private purpose.
 - Verify that dispatch is physically verified and the balance certified once in a fortnight.
 - Verify the cash, stamps and franking machine balance on the day of audit.
 - Verify postage imprest account is written up every day.
4. **Payments:** Proper register is kept of the rent, electricity, water, telephone, fax bills etc. There is a proper system to send advices to Pay Section regarding personal calls for recovery from employees.
5. **Hiring of Taxies:** Proper empanelment of suppliers of vehicle in such a way to synchronies with addresses of the officers to avoid dead mileage. Proportionate hiring from each party to avoid favoritism. Proper log book in case of monthly hiring / duty slips for misc hiring.
6. **Air bookings-** Presently air bookings are decentralized to individuals. However in case, booking is made by Administration Division, proper register to kept to avoid double payment and to link with Travel bills of individual.
7. **Own Vehicle:** Check the log sheets of each vehicle and verify whether details of all repairs/services, spare parts replaced, petrol consumed etc. are recorded therein. Check whether the log

sheet is written upto date. Analysis of the consumption of petrol/diesel and oil per kilometer vehicle-wise have been made and examine the reasons for variations in the same vehicle over a period and compared to other vehicles. No vehicle is kept idle for long time without being used/repaired. Vehicles are insured and the insurance is valid. Registration books are held in proper custody.

8. There is a system to identify unused/damaged assets; their disposition with proper authority's approval and proper accounting of receipts exists.
9. Proper asset register is kept showing acquisition, date of purchase, amount, and depreciation in accordance to section 227(4A) of the companies act, 1956 and the rules made there under.
10. Maintenance of Assets Registers: All the assets must be entered in the Assets Register. No payment should be made without entry and reference of entry on the face of the bill. The asset register tallies with the general ledger. Assets are numbered and periodical stock verification system is in vogue.
11. To ensure that expenditure incurred is within approved budget and delegated powers.
12. To ensure that purchases are made by following the prescribed purchase regulation
13. Proper system exists for receipt of mail, opening and sending to various departments. There is no scope to interception of mail by unauthorized persons.
14. All valuables received by mail should be signed by officer are forwarded to concerned Head of the Department.
15. **Estate:** Maintenance of office building, residential houses, guest houses etc in proper way to avoid its devaluation. Property documents must be kept in lockers; proper taxes etc have to be paid in time.
16. Proper policy for maintenance of assets of the Corporation.

Any change in the above Admin policy would be the responsibility of the Admin division w.r.t. change in the policy documents and implementation of the new policy.

8.15 IT Division

To check that –

1. IT policy/plan formulated is being implemented.
2. System exists for safeguarding of assets i.e. data, application systems, hardware, networking, data base etc.
3. IT system meets the overall objective of management.
4. No. of software developed in-house/bought commercial products off the shelf and its implementation and whether decision of competent authority obtained to develop the software in-house/purchase off the shelf.
5. Whether purchases made are within the delegated powers and budget exists.
6. Whether the system is efficient to achieve required objectives
7. Software is effective in the organization.
8. Feedback received from the user end and amendments / modification made based on the feedback received, if any.
9. Whether prescribed purchase procedure has been followed for procurement of laptops/desktops and the budgets exists.
10. Whether risks identified and steps taken to reduce risks.
11. Whether consequences of the harm from security failures, system failure and controls implemented.
12. Whether inventory of the information system and what risk affects these systems has been identified and action taken.
13. Whether abnormal amount of resources are consumed while executing the system.
14. Whether system has improved the quality of work life.
15. Whether the training has been imparted to the staff for using the system and the ratio of the amount spent to the total cost of the asset.
16. Whether the training module prepared by the IT Division, if any, meets the requirement of the organization.
17. Whether the training to the staff has been imparted while installing new system.
18. Whether estimates have been prepared for future requirements

- and network load capacity.
19. Whether the staff of IT department has been imparted training as per the duties assigned to them.
 20. Whether the staff of IT Division is trained to ensure that the computer installations are protected from hazards such as fire, power cut physical damage, theft, moisture and unauthorized access.
 21. Whether proper register exists for checking maintenance of system.
 22. Whether system exists to check unauthorized use of hardware and software.
 23. Whether periodic revisions have been undertaken in tune with emerging trends.

Access Controls

- 1) Access control policy and procedures are formulated and reviewed periodically.
- 2) Critical access is given as per defined policy.
- 3) Access Control Matrix (ACM) describing User role and necessary authority structure is documented approved and updated.
- 4) Creation /Deletion of User Ids is done after appropriate approvals.
- 5) Oracle 11i version installed is supported by oracle maintenance release schedule.
- 6) Redundant / dormant User Ids are identified and locked / deleted from the system on timely basis.
- 7) Critical Users Ids and passwords are sealed and stored at a safe place and password is changed after every use prior to storage.
- 8) Standard naming conventions are used.
- 9) Account lockout after 3 consecutive unsuccessful attempts
- 10) Auditing is enabled on the Servers to record success and failures of the system events.
- 11) Periodic review of system logs by the Administrator
- 12) Minimum two control files are maintained
- 13) System logs are maintained for a reasonable period of time

Password Policy

- 14) The password management procedures are documented.
-

- 15) Password policy is enabled on the Application.
- 16) The server ensures that only strong passwords are allowed.
- 17) Changes in password of critical Servers is performed regularly by the respective administrators.
- 18) User password is stored in encrypted form and secured.
- 19) Reuse of the last password was not allowed
- 20) Users are forced to change the password at first logon

Backup Policy

- 21) Backup policy and procedure is documented and updated
- 22) Database, applications and critical user data are identified for backup.
- 23) Data backup is taken regularly as scheduled and the logs provide adequate assurance against the risk of data loss.
- 24) Backup media maintenance and labeling standards are implemented
- 25) Backup media is sent to offsite as per the plan.
- 26) Gate pass for movement in media is signed by the authorizer as well as the person transiting the media.
- 27) Maintenance and review of backup logs is done on a regular basis.
- 28) Backup media recycled period and procedure to safely erase the data before disposal of corrupted media is implemented.
- 29) Standby servers are in place to ensure uninterrupted business operations and communication services.
- 30) Backup restoration testing is periodically done, adequately documented and monitored.
- 31) Backup media is stored in a fire proof cabinet.
- 32) Backup Inventory Register is maintained and regularly updated.

8.16 Company Secretariat

Company Secretary's Division has to ensure that the compliance of various Act like Companies Act, SEBI Act, Reserve Bank of India Act, 1934, Securities Contracts (Regulation) Act 1956, Depositories Act, 1996, etc and other guidelines issued by SEBI, RBI etc.

Review that:

- Periodicity of meetings of Board of Directors, Audit Committee,

- etc.
- Proper record of the agenda notes and minutes of the proceedings of Board of Directors, Finance Committee, Loan Committee and Management Committee of Directors and General Meetings are kept.
 - Annual reports are filed within time; statutory records/registers are kept.

The important records/registers under Companies act, 1956 are

1. Copies of Instruments of charge created by the company(Sec.136).
2. Register of charges (Sec.143)
3. Register of Members (Sec.150)
4. Index of Members (Sec.151)
5. Copies of annual returns together with copies of certificates and documents annexed thereto (Sec.163)
6. Books of minutes of proceeds of general meeting (Sec.193)
7. Books of minutes of proceedings of directors.
8. Register of contracts, firms and companies in which Directors are interested (Sec.301)
9. Register of Directors (Sec.303)
10. Register of Directors holdings of shares, debentures etc.(Sec.307)
11. Register of loans to companies under same management(Sec.370 (I-C))
12. Register of transfer of shares.
13. Provident Fund (Sec. 418)
14. Alteration of Memorandum of Association
15. Alteration of Article of Association

Others: To check

- Periodical Return file to stock exchange
 - Replies of complaints inquired by SEBI.
 - Information called for by SEBI whether provided within time frame.
 - Compliance of Guidelines issued by SEBI/DIP from time to time.
 - Insider trading norms and its reporting
 - Various compliance of listing agreement as specified by exchange. Following is the illustrative list of compliance with the critical clauses as specified in the Listing agreement:
-

Clause 16: Book Closure of company once in a year in accordance with the criteria specified and issues a notice period of at least 7 working days to stock exchanges for corporate actions like mergers, de-mergers, splits and bonus shares.

Clause 31: Submission of required copies of Annual reports and other details.

Clause 35: Timely submission of quarterly returns in prescribed format of following:

- Statement showing Shareholding Pattern
- Statement showing Shareholding of persons belonging to the category “Promoter and Promoter Group”
- Statement showing Shareholding of persons belonging to the category “Public” and holding more than 1% of the total number of shares
- Statement showing details of locked-in shares
- Statement showing details of Depository Receipts (DRs)
- Statement showing Holding of Depository Receipts (DRs), where underlying shares are in excess of 1% of the total number of shares.
- Statement showing the voting pattern of shareholders, if more than one class of shares/securities is issued by the issuer.

Clause 38: Payment of annual listing fees to exchange and Annual Custodial fees to depositories.

Clause 40A: Maintenance of minimum public shareholding of 25 % or 10% as the case may be and intimation to stock exchanges in case minimum public shareholding is below required percent.

Clause 41: Submission of unaudited quarterly financial results and Annual Financial results in the prescribed format and within the time specified.

Clause 49: Corporate Governance – Timely submission of corporate governance reports.

- Various Compliances of Reserve Bank of India Act, 1934
- Guidelines circulars & notification issued by RBI from time to time in respect of NBFC.

8.17 Library

1. Recovery from officer in case of loss of books.
2. Requisition for purchase of books.
3. Approval for purchase of books is obtained from Competent Authority.
4. Periodical physical verification of the books by an officer other than the library staff is done and report shortage is submitted to the competent authority.
5. Proper system exists for disposal of old newspapers, periodicals and amounts realized are accounted for.

8.18 PROJECT OFFICES

As per the present approved arrangement, the internal audit of the project office can be taken up by the Internal Audit Division either directly or through outsourced CA firms. The checklist for the same along with assurances to be filled by the auditee unit as well as audit team / CA firms are given below.

Annexure-I

Name of the Project Office :

Name of the CPM : Shri

Period of Audit :

S. No	Details of Records	Checklist	CPM's Comment
1.	Salary & Allowances	Office order and related documents on first appointment as regular/ deputation/ contract is maintained.	
		Updation i.e. addition or removal of data on appointment or retirement/ resignation in computerized pay roll system/ Supported by HR orders.	
		Increase on account of increments, or DA rise are in consonance with the DA circulars and increment dates	
		In case of employees under suspension the pay & allowances are regulated correctly in accordance with the orders of competent authority and also the standing orders/ disciplinary rules, necessary certificates of non-employment has been produced by the employee under suspension; that deductions from subsistence allowance is made correctly.	
		Declaration from employees giving details of savings for claiming deduction Under Income Tax Act, 1961	
		Incentive payments are regulated with rules of the schemes governing payments.	
		Leave encashment disbursed as per leave sanction order.	

		Recoveries on account of PF, EPF, House rent, excess rent, group insurance & income-tax are done correctly and remittances made in stipulated time.	
		Proper system exists for deduction for pay as per the data generated by Time Keeping Machine/register in case of manual records from Personnel Deptt.	
		Proper system exists for deduction for pay in respect of Half Pay Leave, Extra ordinary Leave.	
		Removal of data of employees retired/resigned from salary bill and there exists a proper system to delete the name from the pay bill forthwith & No Objection Certificate obtained before releasing final payments.	
		Recording of each month salary and other taxable components like performance incentive, ex-gratia, leave encashment, LTC encashment, lump-sum allowance paid against LTC in a salary register/software.	
		There exists a proper system of intimating the salary section of the recovery to be effected for private use of transport and telephone expenses over and above the entitlement.	
		Advance against salary paid are properly sanctioned and recovered from the following month.	
		Income-tax have been deducted	

		on average basis, Form 16A issued and Quarterly and yearly returns are filed in the prescribed Forms with the Income tax Deptt. regularly.	
		Outstanding liability have been provided towards salaries and allowance due but not paid during the year.	
		Required provisioning on account of Leave encashment, gratuity, medical & other facilities payable during service or after retirement are made according to provisions of accounting standard-15.	
		Accounting Manual also prescribe following :	
		a. To create new file for each employee this is arranged name wise or as per employee-code.	
		b. To issue pay fixation order stating the scale of pay and date of increment as per the offer of appointment in case of new recruits and revised pay fixation in case of promotions.	
		c. To issue Last Pay Certificate in case of employee transferred.	
		d. Before processing of pay-roll for the month update attendance and leave record.	
2.	Long term Advances to Employees	Loan disbursed after issue of certificate by HR towards execution of required documents.	
		Details of loan disbursed and EMI to be deducted have been recorded in Pay roll software and employee-wise and Loan wise sub-ledger is being generated.	

		Interest accrued is accounted annually.	
3.	Medical reimbursements	Copy of Family declaration accepted by HR Department.	
		Eligibility and ceiling as per entitlement.	
		Details for payment for OPD treatment of upto Rs. 15000/- p.a for each employee included in FBT and more than Rs. 15000/- p.a. included in taxable salary of the employee.	
4.	Leave Travel Concession	To verify whether the claim is countersigned by HR Department.	
		Eligibility for encashment as per list of members.	
		Claim for actual travel as per entitlement.	
		Encashment and Lumpsum reimbursement taken in taxable limit.	
5.	Tour/Transfer TA Claims	Payment of advance as per approved tour programme.	
		Claim as per TA/DA rules.	
		Claim submission within 15 days from return of tour.	
6.	Advances for Procurement & services	Approval with delegation of powers.	
		Booking of advance in proper head/sub-head of account.	
		Advance register is maintained indicating party-wise payments.	
		Proper system exists for preparation of monthly schedule of advances.	
		TDS has been deducted from the advances given against	

		transactions covered under deduction of TDS.	
		Follow-up action for adjustment/recovery.	
7.	Direct Payment/ adjustment for procurement & services.	<p>To verify approval with delegation of powers.</p> <p>a. Expenses incurred are within the budgetary limits or specific approval as per DOP has been obtained.</p> <p>b. Proper Purchase procedure for procurement of goods/services has been followed.</p> <p>c. Certificate of concerned division has been obtained that work has been executed as per Purchase order before releasing the payment.</p> <p>d. Provision of penalty clause has been considered by concerned division before giving certificate that work has been executed as per Purchase order.</p>	
		Advances wherever given have been adjusted.	
		Payments are made on the basis of verified bills along with supporting.	
		Separate registers for Capital and revenue expenses are maintained.	
		TDS, service tax, Work Contract tax has been deducted and deposited wherever applicable as per the existing laws and proper registers maintained.	
		Certificate for the tax deducted has been issued and quarterly & yearly returns as applicable have	

		been filed.	
8.	Fund Management	Whether Requirement of funds have been assessed before requisitioning funds from Corporate Office.	
9.	Formulation of Budget and its control	Whether budget estimates for the next financial year have been prepared based on realistic estimates and expenditure of the current year is within the budget and any deviation is supported with details.	
10.	Tax-Compliance	Whether income-tax on salaries and TDS from third party payments have been deposited and returns filed in time.	
11.	Outstanding liability	Whether outstanding liability created in the previous financial year have been cleared and created as per the works/services taken but not paid.	
12.	Outstanding loan.	Verify that PO is coordinating recovery of loan and disbursement process	
13.	Technical Works Appraisal of T&D Schemes	Whether as per REC guidelines, proper IRR, need in the horizon year, security available, approvals etc	
14.	Exposure available	Whether within exposure limits;	
15.	Documentation of T&D	As per REC guidelines- loan document, govt guarantee, hypothecation, escrow, checklist of documentation, charge creation with ROC, escrow monthly review etc.	
16.	Annual works	Capital plan of the state, power utilities,	

	programme	performance of other FIs in the state etc has to be considered while formulating AWP.	
17.	Processing of claims	As per check list, supported with month / quarterly reports and corroborating with monitoring of site etc.	
18.	Records	Proper register for claims, documentation, slow progress, closure, non starter and action thereof;	
19.	Monitoring of scheme	Annual Monitoring Plan, proper reports, regular monitoring etc needs to be taken care.	
20.	RE Cooperative	Recovery status and action taken	
21.	Dead documentation	As per policy issued by legal division	
22.	RGGVY schemes	Appraisal and recommendation to CO for approval after sample monitoring of unelectrified village as per DPR DPR as per guidelines; Documentation- Tripartite agreements; Sanction letter issued; Monitoring of award of work to turnkey contractor; Obtain periodic reports and physical monitoring; etc	
23.	Generation Project	Private Project- Centralised at CO – Gen State Sector project- initial appraisal and recommendation to CO with exposure Sanction letter on approval from CO Documentation and ROC proceedings 1st disbursement after compliance of pre-	

		disbursement conditions Monitoring of site Subsequent disbursements.	
24.	Administration	Insurance of Assets: The assets are insured and the insurance is valid, renewed without delay, for proper value, addition to insurable interest on procurement during the year.	
		Stationery: Procurement from empanelled parties at approved rates, proper stock register (for receipt and issue), check abnormal consumption, minimum balance to be maintained etc.	
		Dispatch: The dispatch arrangements are satisfactory for its effectiveness and efficiency. Franking machine readings are recorded at the close of every day. Test check the letters dispatched with the franking machine readings to see that there is no scope for use of the machine for private purpose. <ul style="list-style-type: none"> ➤ Verify that dispatch is physically verified and the balance certified once in a fortnight. ➤ Verify the cash, stamps and franking machine balance on the day of audit. ➤ Verify postage imprest account is written up every day. 	
		Payments: Proper register is kept of the rent, electricity, water, telephone, fax bills etc. There is a proper system to send	

		advices to Pay Section regarding personal calls for recovery from employees.	
		Hiring of Taxies: Proper empanelment of suppliers of vehicle in such a way to synchronies with addresses of the officers to avoid dead mileage. Proportionate hiring from each party to avoid favoritism. Proper log book in case of monthly hiring / duty slips for misc hiring.	
		Air bookings- Presently air bookings are decentralized to individuals. However in case, booking is made by Administration Division, proper register to kept to avoid double payment and to link with Travel bills of individual.	
		Own Vehicle: Check the log sheets of each vehicle and verify whether details of all repairs/services, spare parts replaced, petrol consumed etc. are recorded therein. Check whether the log sheet is written upto date. Analysis of the consumption of petrol/diesel and oil per kilometer vehicle-wise have been made and examine the reasons for variations in the same vehicle over a period and compared to other vehicles. No vehicle is kept idle for long time without being used/repared. Vehicles are insured and the insurance is valid. Registration books are held in proper	

		custody.	
		There is a system to identify unused/ damaged assets; their disposition with proper authority's approval and proper accounting of receipts exists.	
		Proper asset register is kept showing acquisition, date of purchase, amount, and depreciation in accordance to section 227(4A) of the companies act, 1956 and the rules made there under.	
		Maintenance of Assets Registers: All the assets must entered in the Assets Register. No payment should be made without entry and reference of entry on the face of the bill. The asset register tallies with the general ledger. Assets are numbered and periodical stock verification system is in vogue.	
		To ensure that expenditure incurred is within approved budget and delegated powers.	
		To ensure that purchases are made by following the prescribed purchase regulation	
		Proper system exists for receipt of mail, opening and sending to various departments. There is no scope to interception of mail by unauthorized persons.	
		All valuables received by mail should be signed by officer are forwarded to concerned Head of the Department.	
		Estate: Maintenance of office building, residential houses,	

		guest houses etc in proper way to avoid its devaluation. Property documents must be kept in lockers; proper taxes etc have to be paid in time.	
		Proper policy for maintenance of assets of the Corporation.	
25.	HR	Only leave records and minor works dealt from PO.	

Annexure-II

Name of the Project Office :

Name of the CPM :

Name of the Auditor :

Period of Audit :

S. No	Details of Records	Checklist	Auditor's Comments
1.	Salary & Allowances	Office order and related documents on first appointment as regular/deputation/ contract is maintained.	
		Updation i.e. addition or removal of data on appointment or retirement/resignation in computerized pay roll system/ Supported by HR orders.	
		Increase on account of increments, or DA rise are in consonance with the DA circulars and increment dates	
		In case of employees under suspension the pay & allowances are regulated correctly in accordance with the orders of competent authority and also the standing orders/ disciplinary rules, necessary certificates of non-employment has been produced by the employee under suspension; that deductions from subsistence allowance is made correctly.	
		Declaration from employees giving details of savings for claiming deduction Under Income Tax Act, 1961	
		Incentive payments are regulated with rules of the	

		schemes governing payments.	
		Leave encashment disbursed as per leave sanction order.	
		Recoveries on account of PF, EPF, House rent, excess rent, group insurance & income-tax are done correctly and remittances made in stipulated time.	
		Proper system exists for deduction for pay as per the data generated by Time Keeping Machine/register in case of manual records from Personnel Deptt.	
		Proper system exists for deduction for pay in respect of Half Pay Leave, Extra ordinary Leave.	
		Removal of data of employees retired/resigned from salary bill and there exists a proper system to delete the name from the pay bill forthwith & No Objection Certificate obtained before releasing final payments.	
		Recording of each month salary and other taxable components like performance incentive, ex-gratia, leave encashment, LTC encashment, lump-sum allowance paid against LTC in a salary register/software.	
		There exists a proper system of intimating the salary section of the recovery to be effected for private use of	

		transport and telephone expenses over and above the entitlement.	
		Advance against salary paid are properly sanctioned and recovered from the following month.	
		Income-tax have been deducted on average basis, Form 16A issued and Quarterly and yearly returns are filed in the prescribed Forms with the Income tax Deptt. regularly.	
		Outstanding liability have been provided towards salaries and allowance due but not paid during the year.	
		Required provisioning on account of Leave encashment, gratuity, medical & other facilities payable during service or after retirement are made according to provisions of accounting standard-15.	
		Accounting Manual also prescribe following :	
		a. To create new file for each employee this is arranged name wise or as per employee-code.	
		b. To issue pay fixation order stating the scale of pay and date of increment as per the offer of appointment in case of new recruits and revised pay fixation in case of promotions.	
		c. To issue Last Pay	

		Certificate in case of employee transferred.	
		d. Before processing of payroll for the month update attendance and leave record.	
2.	Long term Advances to Employees	Loan disbursed after issue of certificate by HR towards execution of required documents.	
		Details of loan disbursed and EMI to be deducted have been recorded in Pay roll software and employee-wise and Loan wise sub-ledger is being generated.	
		Interest accrued is accounted annually.	
3.	Medical reimbursements	Copy of Family declaration accepted by HR Department.	
		Eligibility and ceiling as per entitlement.	
		Details for payment for OPD treatment of upto Rs. 15000/- p.a for each employee included in FBT and more than Rs. 15000/- p.a. included in taxable salary of the employee.	
4.	Leave Travel Concession	To verify whether the claim is countersigned by HR Department.	
		Eligibility for encashment as per list of members.	
		Claim for actual travel as per entitlement.	
		Encashment and Lumpsum reimbursement taken in taxable limit.	
5.	Tour/Transfer TA Claims	Payment of advance as per approved tour programme.	
		Claim as per TA/DA rules.	

		Claim submission within 15 days from return of tour.	
6.	Advances for Procurement & services	Approval with delegation of powers.	
		Booking of advance in proper head/sub-head of account.	
		Advance register is maintained indicating party-wise payments.	
		Proper system exists for preparation of monthly schedule of advances.	
		TDS has been deducted from the advances given against transactions covered under deduction of TDS.	
		Follow-up action for adjustment/ recovery.	
7.	Direct Payment/ adjustment for procurement & services.	<p>To verify approval with delegation of powers.</p> <p>e. Expenses incurred are within the budgetary limits or specific approval as per DOP has been obtained.</p> <p>f. Proper Purchase procedure for procurement of goods/services has been followed.</p> <p>g. Certificate of concerned division has been obtained that work has been executed as per Purchase order before releasing the payment.</p> <p>h. Provision of penalty clause has been considered by concerned division before giving certificate that work has been executed as per Purchase order.</p>	

		Advances wherever given have been adjusted.	
		Payments are made on the basis of verified bills along with supporting.	
		Separate registers for Capital and revenue expenses are maintained.	
		TDS, service tax, Work Contract tax has been deducted and deposited wherever applicable as per the existing laws and proper registers maintained.	
		Certificate for the tax deducted has been issued and quarterly & yearly returns as applicable have been filed.	
8.	Fund Management	Whether Requirement of funds have been assessed before requisitioning funds from Corporate Office.	
9.	Formulation of Budget and its control	Whether budget estimates for the next financial year have been prepared based on realistic estimates and expenditure of the current year is within the budget and any deviation is supported with details.	
10.	Tax-Compliance	Whether income-tax on salaries and TDS from third party payments have been deposited and returns filed in time.	
11.	Outstanding liability	Whether outstanding liability created in the previous financial year have been cleared and created as per the works/services taken but not paid.	

12.	Outstanding loan.	Verify that PO is coordinating recovery of loan and disbursement process	
13.	Technical Works Appraisal of T&D Schemes	Whether as per REC guidelines, proper IRR, need in the horizon year, security available, approvals etc	
14.	Exposure available	Whether within exposure limits;	
15.	Documentation of T&D	As per REC guidelines- loan document, govt guarantee, hypothecation, escrow, checklist of documentation, charge creation with ROC, escrow monthly review etc.	
16.	Annual works programme	Capital plan of the state, power utilities, performance of other FIs in the state etc has to be considered while formulating AWP.	
17.	Processing of claims	As per check list, supported with month / quarterly reports and corroborating with monitoring of site etc.	
18.	Records	Proper register for claims, documentation, slow progress, closure, non starter and action thereof;	
19.	Monitoring of scheme	Annual Monitoring Plan, proper reports, regular monitoring etc needs to be taken care.	
20.	RE Cooperative	Recovery status and action taken	
21.	Dead documentation	As per policy issued by legal division	
22.	RGGVY schemes	Appraisal and recommendation to CO for approval after sample	

		<p>monitoring of unelectrified village as per DPR DPR as per guidelines; Documentation- Tripartite agreements; Sanction letter issued; Monitoring of award of work to turnkey contractor; Obtain periodic reports and physical monitoring; etc</p>	
23.	Generation Project	<p>Private Project- Centralised at CO – Gen State Sector project- initial appraisal and recommendation to CO with exposure Sanction letter on approval from CO Documentation and ROC proceedings 1st disbursement after compliance of pre-disbursement conditions Monitoring of site Subsequent disbursements.</p>	
24.	Administration	<p>Insurance of Assets: The assets are insured and the insurance is valid, renewed without delay, for proper value, addition to insurable interest on procurement during the year.</p>	
		<p>Stationery: Procurement from empanelled parties at approved rates, proper stock register (for receipt and issue), check abnormal consumption, minimum balance to be maintained etc.</p>	
		<p>Dispatch: The dispatch arrangements are satisfactory for its effectiveness and efficiency. Franking machine readings are recorded at the</p>	

		<p>close of every day. Test check the letters dispatched with the franking machine readings to see that there is no scope for use of the machine for private purpose.</p> <ul style="list-style-type: none"> ➤ Verify that dispatch is physically verified and the balance certified once in a fortnight. ➤ Verify the cash, stamps and franking machine balance on the day of audit. ➤ Verify postage imprest account is written up every day. 	
		<p>Payments: Proper register is kept of the rent, electricity, water, telephone, fax bills etc. There is a proper system to send advices to Pay Section regarding personal calls for recovery from employees.</p>	
		<p>Hiring of Taxies: Proper empanelment of suppliers of vehicle in such a way to synchronies with addresses of the officers to avoid dead mileage. Proportionate hiring from each party to avoid favoritism. Proper log book in case of monthly hiring / duty slips for misc hiring.</p>	
		<p>Air bookings- Presently air bookings are decentralized to individuals. However in case, booking is made by Administration Division, proper register to kept to avoid</p>	

		double payment and to link with Travel bills of individual.	
		Own Vehicle: Check the log sheets of each vehicle and verify whether details of all repairs/services, spare parts replaced, petrol consumed etc. are recorded therein. Check whether the log sheet is written upto date. Analysis of the consumption of petrol/diesel and oil per kilometer vehicle-wise have been made and examine the reasons for variations in the same vehicle over a period and compared to other vehicles. No vehicle is kept idle for long time without being used/repared. Vehicles are insured and the insurance is valid. Registration books are held in proper custody.	
		There is a system to identify unused/ damaged assets; their disposition with proper authority's approval and proper accounting of receipts exists.	
		Proper asset register is kept showing acquisition, date of purchase, amount, and depreciation in accordance to section 227(4A) of the companies act, 1956 and the rules made there under.	
		Maintenance of Assets Registers: All the assets must entered in the Assets Register. No payment should be made without entry and	

		reference of entry on the face of the bill. The asset register tallies with the general ledger. Assets are numbered and periodical stock verification system is in vogue.	
		To ensure that expenditure incurred is within approved budget and delegated powers.	
		To ensure that purchases are made by following the prescribed purchase regulation	
		Proper system exists for receipt of mail, opening and sending to various departments. There is no scope to interception of mail by unauthorized persons.	
		All valuables received by mail should be signed by officer are forwarded to concerned Head of the Department.	
		Estate: Maintenance of office building, residential houses, guest houses etc in proper way to avoid its devaluation. Property documents must be kept in lockers; proper taxes etc have to be paid in time.	
		Proper policy for maintenance of assets of the Corporation.	
25.	HR	Only leave records and minor works dealt from PO.	

Detailed checklist for Audit Firms

In case of enterprise having ERP solutions implemented in various processes, all the operations are automated. Therefore, in ERP scenario, all the processes have to be verified by audit team in such

a way that basic flow remains as per policy of the corporation and towards effective and efficient way to achieve objectives.

Following checklist may be considered while conducting audit:-

- a) Whether policies exist for outlining roles and responsibilities for all personnel within the organization with respect to information systems, internal control and security.
- b) Whether regular reviews done to evaluate and appropriately increase internal control and security.
- c) Whether management has formally assigned organization-wide responsibility for formulation of internal control and security (both logical and physical) policies and procedures to a security officer.
- d) Whether procedures exist to review and maintain changes in data and system ownership on a regular basis.
- e) Whether policies and procedures exist for describing supervisory practices to ensure that roles and responsibilities are properly exercised, and all personnel have sufficient authority and resources to perform their roles and responsibilities.
- f) Whether IT staffing and competence is maintained to ensure its ability to provide effective technology solutions.
- g) Whether IT policies and procedures exist to control the activities of consultants and other contract personnel, and thereby ensure the protection of the organisation's assets.
- h) Whether technical and management skill gaps are identified and appropriate actions are taken to address these gaps.
- i) Whether change control is a formal procedure for both user and development groups.
- j) Whether change control log ensures all changes shown were resolved.
- k) Whether reporting exists for security breaches and formal problem resolution procedures are in place, and these reports include:
 - Unauthorized attempts to access system (sign on)
 - Unauthorized attempts to access system resources
 - Unauthorized attempts to view or change security definitions
 - Resource access privileges by user ID

- Authorized security definitions and rule changes
 - Authorized access to resources (selected by user or resource)
 - Status change of the system security
 - Accesses to operating system security parameter tables
- l) Whether at log-on, an advisory warning message to users regarding the appropriate use of the hardware, software or connection logged on.

The checklist of various division are as below:

1. Generation Schemes

Loan Documentation

- a. Verification of Loan documents executed for financing of the project including checklist for documentation, Loan Agreement, MOU, Hypothecation/ Mortgage Deed, Pledging of shares, Escrow agreement, TRA, Security Trusty Agreement etc. regular monitoring of Trust and Retention Account and Escrow mechanism by verifying the bank statements to ensure its implementation as per the agreement.
- b. Common Loan Agreement (CLA) in case of consortium financing-
to see that REC's separate/ special terms (if any) are incorporated or not.
- c. Vetting by Legal Division: To see that Documents are vetted by lender legal counsel / Legal Division on a regular basis for ensuring that the same are as per approved terms and conditions.
- d. Filing of charge with ROC: It may be verified that the charge for existing and future assets is filed with ROC in time.
- e. Payment of stamp duty: It may be verified that required Stamp Value as per the state stamp act is paid.
- f. Signature of signatories and their authorization.
- g. Dead Document: As per policy issued by legal division.
- h. Safe custody of the legal documentation and authorizing the specific officials for handling of the legal documents to ensure its safety to avoid any inappropriate use of the same.
- i. Loan documents are scanned and attached as attachments with all schemes which are processed in ERP system.

Loan Disbursement

The standardization of terms & conditions of the Generation Projects –both private and state govt. projects are approved by the Board. The same are to be verified before release of loan to the lenders.

- a) Release of 1st Installment: Various terms and conditions are required to be verified before releasing of first installment like execution of loan documents, arrangement of escrow mechanism, fulfillment of pre-disbursement condition, filing of charges with ROC, clearance from lead financier; creation of required security, payment of lead financier fee, imposition of additional interest, commitment charges etc. The password provided in ERP system for preparation of claims vouchers, passing of vouchers and authorization for payment to be strictly adhered.
- b) 2nd and subsequent release: In subsequent claims review of project progress, QPR, LE reports, engineer reports and analysis of progress while releasing the claim needs to be checked.
- c) Verify the system checklist for the claim release and LE / our engineer's progress reports. Test check that the items provided in the check-list which have been ticked for yes or no or correctly entered by CPM/ZMs.
- d) A post sanction appraisal review is conducted to monitor the financial health of the borrowers. Test check that the claims are released on FIFO basis and undue delay in processing the claims are not there.

Project Monitoring

- a) Pre-sanction field visits- to verify the facts given in DPR, feasibility, Project management team etc.
- b) Post sanction field visits - to verify the implementation of schemes as per declaration given in the claim, creation of assets etc. It may be verified that the monitoring guidelines are followed while conducting monitoring and reports are timely submitted.
- c) Verify the Monitoring reports, LEs reports, entries in monitoring register, Monitoring schedule.

- d) LE role in the monitoring and outcome of the reports submitted by LE's .
- e) The audit team may verify on test cases that the discrepancies observed during monitoring is being watched, rectified or recovered during ensuing claims.
- f) Monitoring of Trust & Retention Account & Escrow mechanism.
- g) Verification of periodical reports submitted by the borrower and its examination w.r.t. terms and conditions of the agreement
- h) Verification of cash flow and utilisation of funds statements as furnished by Lenders' financial advisors;
- i) Verification of revision in project cost/implementation schedule due to time and cost overrun;

Records to verify – ensure that the records prescribed and maintained are as per ISO requirement

- a) Scheme incoming register- with the status of total pending schemes and reason for pending etc. It may also be checked that the schemes are processed in a chronological order, preferably FIFO basis.
- b) Fee Register - Details of fee received like processing fee-I and II, Upfront fee, Lead Financer fee, Additional interest levied etc. with payment details date wise.
- c) Claim Register: Scheme code wise entry of claim releases, particulars of all scheme details on one page with all disbursement details and schemes period extension etc.
- d) Claim Diary Register: to verify the details of claim received and fund release / recommended with amount etc. A W1-02 Delay Register is also required to verify to know the reason for delay in claim processing, if any and a review by HOD etc.
- e) Monitoring Register -To records the monitoring done with scheme details and type, monitoring reports issued and person detail etc.
- f) Annual Review of Project and Entity- To assess the status of financial strength and weaknesses of entity on continual basis and in order to protect the interest of REC. Review of feedbacks given by Project Monitoring Team and action taken etc.

2. Transmission and Distribution Schemes

Loan Appraisal

- a) Review of Entity Appraisal - The Transmission and Distribution Sector is presently under domain of Government Company, state electricity board etc, therefore, the entity appraisal is presently carried out by Project Appraisal Group annually and rating notified with specific exposure norms for all companies. Accordingly, the operational division has not much to do but to restrict the exposure upto the approved limit. In case of new private party, the application has to be diverted to Project Appraisal Department for entity appraisal which needs to be conducted based on approved guidelines. The grading of borrowers is done properly by following appraisal guidelines.
- b) Review of Technical Appraisal - Presently, Project Offices are handling this activity and submit the appraisal note with recommendation to Corporate Office for sanction. T&D Division, Corporate Office, thereafter, review the appraisal and recommend the scheme to Screening Committee for approval. Screening Committee considers the scheme and approves / forward to BOD for approval based on delegation of powers. The audit team may verify technical feasibility, Project requirement justification; Cost data adoption, Credit Exposure balance, Scope of work, Loan amount sanction, Escrow, TRA Account, IRR etc. The time taken at each level for loan appraisal/sanction and disbursements are to be checked to avoid any undue delay.
- c) Review of Delegation of Powers: It may be verified that while sanctioning the project, delegation of powers have been adhered. It may also be verified that all facts and figures of Project Appraisal, limitations/ waivers and pre-disbursement conditions etc. have been duly incorporated in the memorandum to the Board of Directors or any other authority competent to approve the project. The approval of Competent Authorities / BOD Minutes, sanction letter and amendments, if any, also needs to be verified by the audit team.
- d) Sanction of loan: Verify the minutes of sanction of competent authority, communication with PO/ ZO, Sanction letter issued by PO/ ZO and subsequent amendments, Terms and conditions

mentioned including special terms if any, limitations/ waivers and pre-disbursement conditions etc.

- e) Delay in sanction: Audit Team has to verify that the scheme is being sanctioned within norms prescribed in fair practice code approved by Board of Directors. Any delay has to be reported.

Loan Documentation & Loan Disbursement

Same as in the case of Generation project specified above.

Project Monitoring

- a) Formulation of Annual Monitoring Plan as required by Project Monitoring Guidelines issued by REC detailing the description of schemes, schedule etc.
- b) Achievement of monitoring w.r.t. targets
- c) Verify the Monitoring reports and correlation with claim released considering the discrepancies observed during monitoring;
- d) Monitoring register is maintained containing all the relevant details.
- e) The audit team may verify on test cases that the discrepancies observed during monitoring is being watched, rectified or recovered during ensuing claims.
- f) Monitoring is done by technical officials and report are prepared in prescribed formats duly supported with photographs for discrepancies.

Slow Progress Schemes:

A scheme wherein no claim released during last one year is earmarked as slow progressed scheme. Action has to be taken towards revival or closure of such scheme as per guidelines issued.

The audit team has to verify that the required action is being taken by PO/ CO on such schemes.

Non Starter Schemes

As per guidelines, non starter schemes are schemes wherein no progress achieved within six months of 1st disbursement

(advance). In such case, the scheme has to be withdrawn within next six months with penal interest. Quarterly reporting to BOD for such schemes has to be done.

The audit team has to verify the action taken on the issue.

Closure of schemes

As per guidelines, on completion of scheme period, disbursement of loan sanctioned or achievement of physical progress, the scheme has to be closed and any unutilized amount has to be refunded by the borrower within reasonable time.

Audit Team has to verify that the closure of scheme is in practice and targets are achieved. Moreover, unutilized amount, if any, persuaded and recovered timely.

Schemes which are not closed as per the scheme period is reported at appropriate level for taking required action.

3. RGGVY Schemes

Checklist for RGGVY schemes :

Loan Appraisal

- a) Review of DPRs - District wise DPRs were submitted by utility where scope of work is defined with the relevant cost data.
 - b) Review of Scheme Appraisal - Technical feasibility, Project requirement justification, Cost data adoption, Scope of work, Submission of village diagram, Notification, formation of District Electric Committee, Appointment of Nodal officer, Loan amount calculation, site visits for verification of DPR etc.
 - c) Sanction of loan recommendation of PO / CO, Minutes of monitoring committee of MOP conveying sanction of scheme, Sanction letter issued by PO/ZO, Acceptance of state. Review the deviation in the cost of award, and informed to REC, recommendation of PO with proper justification keeping quantity as same, Approval of monitoring committee for revised cost and issue of revised sanction letter.
-

Loan Documentation

Presently no loan documents except MOU / MOA between REC, State Government and Electricity Board / Discoms are being done. Review of MOU signed between REC, Tripartite/ Quadripartite Agreement.

Loan Disbursement

- a) Release of 1st installment : review the recommendation of 1st installment, NIT/ Award of work or Undertaking by Implementing Agency to award the work within 7 days to a Turn Key Contractor, Claim submitted by State Govt., Claim checklist, recommendation of PO/ CO.
- b) In subsequent claims review of utilization certificate submitted by State Govt. with proof of 80% of fund were utilized/ transferred to the turn key contractor. Review of QPR, Putt chart, Progress reports submitted by IA, Appointment of Third party monitoring, Franchisee development, review of progress submitted.

Project Monitoring

- a) Appointment of third party monitoring and reports submitted to REC.
- b) Review of monitoring done by third party and verify the progress reported by Implementing Agency.
- c) Review the monitoring reports verifying the quality of the equipment used and adherence of REC quality standards.
- d) Three tier monitoring under 11th Plan: Three tier monitoring, 1st by MOP, 2nd by REC and 3rd by implementing agency has to be undertaken. Audit Team may verify that required monitoring is being undertaken by the agencies.

Records to verify

- a) Progress report file - Record file of schemes wise progress received from implementing agencies.
 - b) Claim Register / ledger: Scheme code wise entry of claim releases, particulars of all scheme details on one page with all disbursement details and scheme period extension etc.
 - c) Monitoring Register - To records the monitoring done with scheme details and report issued.
-

RE Cooperative Societies

RE Cooperatives Societies were formed by various State Power Utilities for distribution of electricity in selective areas. In the past some of them have been merged with erstwhile Power utilities. The remaining societies are still functioning in various States are repaying our dues.

Audit Team has to verify recovery status and action taken. One time settlement made with RE-cooperative societies may also be reviewed. Physical verification of FDRs for Special Reserve Fund and calculation of interest accrued on the FDRs. Recovery of SRF from the societies which have been dissolved/merged with Discoms/defaulted, may be ensured alongwith interest, in terms of SRF schemes approved by BOD. One Time Settlement (OTS) made with RE Cooperative societies may also be reviewed.

4. Administration

As per the present REC's policy regarding petty purchase/ repairs of an amount not exceeding Rs. 10000/- can be made after orally ascertaining competitive market and recording the statement on the body of the bill. For the purchase/repair/services of the amount exceeding Rs. 10000/- upto Rs. 100000/- through a committee of three officers including one from Finance Division. Further, any purchase involving expenditure of over Rs. 100000/- would be through tendering process. The Purchase regulations/procedures approved by the competent authority are to be followed.

To check that :

- a) Insurance of Assets: The assets are insured and the insurance is valid, renewed without delay, for proper value, addition to insurable assets on procurement during the year.
- b) Stationery: Procurement from empanelled parties at approved rates, proper stock register (for receipt and issue), check abnormal consumption, minimum balance to be maintained etc.
- c) Dispatch: The dispatch arrangements are satisfactory for its effectiveness and efficiency. Franking machine readings are recorded at the close of every day. Test check the letters dispatched with the franking machine readings to see that there is

no scope for use of the machine for private purpose.

- Verify that dispatch is physically verified and the balance certified once in a fortnight.
 - Verify the cash, stamps and franking machine balance on the day of audit.
 - Verify postage imprest account is written up every day.
- d) Payments: Proper register is kept of the rent, electricity, water, telephone, fax bills etc. There is a proper system to send advices to Pay Section regarding personal calls for recovery from employees. Payments to third parties are made in FIFO basis.
- e) Hiring of Taxies: Proper empanelment of suppliers of vehicle in such a way to synchronies with addresses of the officers to avoid dead mileage. Proportionate hiring from each party to avoid favoritism. Proper log book in case of monthly hiring / duty slips for misc hiring.
- f) Air bookings- Presently air bookings are decentralized to individuals. However in case, booking is made by Administration Division, proper register to kept to avoid double payment and to link with Travel bills of individual.
- g) Own Vehicle: Check the log sheets of each vehicle and verify whether details of all repairs/services, spare parts replaced, petrol consumed etc. are recorded therein. Check whether the log sheet is written upto date. Analysis of the consumption of petrol/diesel and oil per kilometer vehicle-wise have been made and examine the reasons for variations in the same vehicle over a period and compared to other vehicles. No vehicle is kept idle for long time without being used/ repaired. Vehicles are insured and the insurance is valid. Registration books are held in proper custody.
- h) There is a system to identify unused/damaged assets; their disposition with proper authority's approval and proper accounting of receipts exists.
- i) Proper asset register is kept showing acquisition, date of purchase, amount, and depreciation in accordance to section 227(4A) of the companies act, 1956 and the rules made there under.
- j) Maintenance of Assets Registers: All the assets must be entered in the Assets Register. No payment should be made without entry and reference of entry on the face of the bill. The

- asset registers tallies with the general ledger. Assets are numbered and periodical stock verification system is in vogue.
- k) To ensure that expenditure incurred is within approved budget and delegated powers.
 - l) To ensure that purchases are made by following the prescribed purchase regulation.
 - m) Proper system exists for receipt of mail, opening and sending to various departments. There is no scope to interception of mail by unauthorized persons.
 - n) All valuables received by mail should be signed by officer are forwarded to concerned Head of the Department.
 - o) Estate: Maintenance of office building, residential houses, guest houses etc in proper way to avoid its devaluation. Property documents must be kept in lockers; proper taxes etc have to be paid in time.
 - p) Proper policy for maintenance of assets of the Corporation.

Any change in the above Admin policy would be the responsibility of the Admin division w.r.t. change in the policy documents and implementation of the new policy.

5. Pay, Bills and Establishment

Activities of this division includes following:-

- a) Salary & allowances.
- b) Long term Advances to Employees
- c) Medical reimbursements
- d) Leave Travel Concession.
- e) Tour/Transfer TA Claims.

Auditee responsibilities

- a) Any change in the applicable rules, guidelines or provisions of applicable Acts would be the responsibility of the concerned division.
- b) Each user is required to work/ operate in line with the delegated responsibilities and guidelines.
- c) Clear audit trail of different work flows and approvals should be available.

- d) Proper attendance records is maintained for punctuality.

SALARY & ALLOWANCES

To Check that:

- a) Office order and related documents on first appointment as regular/ deputation/contract is maintained.
- b) Updation i.e. addition or removal of data on appointment or retirement/resignation in computerized payroll system/Supported by HR orders.
- c) Increase on account of increments, or DA rise are in consonance with the DA circulars and increment dates.
- d) In case of employees under suspension the pay & allowances are regulated correctly in accordance with the orders of competent authority and also the standing orders/disciplinary rules, necessary certificates of non-employment has been produced by the employee under suspension; that deductions from subsistence allowance is made correctly.
- e) Declaration from employees giving details of savings for claiming deduction Under Income Tax Act, 1961
- f) Incentive payments are regulated with rules of the schemes governing payments.
- g) Leave encashment disbursed as per leave sanction order.
- h) Recoveries on account of PF, EPF, House rent, excess rent, group insurance & income-tax are done correctly and remittances made in stipulated time.
- i) Proper system exists for deduction for pay as per the data generated by Time Keeping Machine/register in case of manual records from Personnel Dept.
- j) Proper system exists for deduction for pay in respect of Half Pay Leave, Extra ordinary Leave.
- k) Removal of data of employees retired/resigned from salary bill

and there exists a proper system to delete the name from the pay bill forthwith & No Objection Certificate obtained before releasing final payments.

- l) Recording of each month salary and other taxable components like performance incentive, ex-gratia, leave encashment, LTC encashment, and lump-sum allowance paid against LTC in a salary register/software.
- m) There exists a proper system of intimating the salary section of the recovery to be effected for private use of transport and telephone expenses over and above the entitlement.
- n) Advance against salary paid are properly sanctioned and recovered from the following month.
- o) Income-tax has been deducted on average basis, Form 16H is obtained for deduction of tax at lower rate. Form 16A issued and Quarterly and yearly returns are filed in the prescribed forms with the Income tax Dept regularly.
- p) Outstanding liability have been provided towards salaries and allowance due but not paid during the year.
- q) Required provisioning on account of Leave encashment, gratuity,
- r) Medical & other facilities payable during service or after retirement are made according to provisions of Accounting standard 15- Retirement Benefits.
- s) Accounting Manual also prescribes the following:
 - a. To create new file for each employee this is arranged name-wise or as per employee-code.
 - b. To issue pay fixation order stating the scale of pay and date of increment as per the offer of appointment in case of new recruits and revised pay fixation in case of promotions.
 - c. To issue Last Pay Certificate in case of employee transferred.
 - d. Before processing of pay-roll for the month update attendance and leave record.

LONG TERM ADVANCES TO EMPLOYEES

- (i) Loan disbursed after issue of certificate by HR towards execution of required documents
- (ii) Details of loan disbursed and EMI to be deducted have been recorded in Pay roll software and employee-wise and Loan wise sub-ledger is being generated. Deduction of EMI ,if any,is ensured while payroll processing.
- (iii) Interest accrued is accounted annually.

MEDICAL REIMBURSEMENT

Presently the following policy is in operation for medical reimbursement. Any change in the policy would be the responsibility of the official disbursing payments.

- (i) Copy of Family declaration accepted by HR Department.
- (ii) Eligibility and ceiling as per entitlement.
- (iii) Details for payment for OPD treatment of upto Rs. 15000/- p.a and more than Rs. 15000/- p.a. included in taxable salary of the employee.
- (iv) Medical claims are substantiated by medical bills and other supporting.

LEAVE TRAVEL CONCESSION

- (i) To verify whether the claim is countersigned by HR Department.
- (ii) Eligibility for encashment as per list of members.
- (iii) Claim for actual travel as per entitlement.
- (iv) Encashment and Lump sum reimbursement taken in taxable income

t) TOUR/TRANSFER CLAIMS

- (i) Payment of advance as per approved tour programme.
- (ii) Claim as per TA/DA rules.
- (iii) Claim submission within the defined time from return of tour.

u) ADVANCES FOR PROCUREMENT & SERVICES

- (i) Approval with delegation of powers.
- (ii) Booking of advance in proper head/sub-head of account.
- (iii) Advance register is maintained indicating party-wise payments
- (iv) Proper system exists for preparation of monthly schedule of advances.
- (v) TDS has been deducted from the advances given against transaction covered under deduction of TDS.
- (vi) Follow-up action for adjustment/recovery.

v) DIRECT PAYMENT/ADJUSTMENT FOR PROCUREMENT & SERVICES

- (i) To verify approval with delegation of powers.
- (ii) Expenses incurred are within the budgetary limits or specific approval as per DOP has been obtained.
- (iii) Proper Purchase procedure for procurement of goods/services has been followed.
- (iv) Certificate of concerned division has been obtained that work has been executed as per Purchase order before releasing the payment.
- (v) Provision of penalty clause has been considered by concerned division before giving certificate that work has been executed as per Purchase order.
- (vi) Advances wherever given have been adjusted.
- (vii) Payments are made on the basis of verified bills along with supporting.
- (viii) Separate registers for Capital and revenue expenses are maintained.
- (ix) TDS, service tax, Work Contract tax has been deducted and deposited wherever applicable as per the existing laws and proper registers maintained.
- (x) Certificate for the tax deducted has been issued and quarterly & yearly returns as applicable have been filed.

8.19 Subsidiaries

1. Verify that all the subsidiaries audited accounts have been included in the consolidated financial statements of REC.
2. Where a subsidiary is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion.
3. Review the working papers for the prior years for the known subsidiaries.
4. Review the investments to determine the shareholding in other entities;
5. Review the statutory records maintained by the parent, for example registers under section 302, 372A of the Companies Act, 1956.
6. Identify the changes in the shareholding that might have taken place since the last audit.
7. Verify that in preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, income and expenses and then certain calculations like determination of goodwill or capital reserve, minorities interest and adjustments like elimination of intra group transactions, balances and unrealized profits etc. are made in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements.
8. Verify that the adjustments warranted by the relevant accounting standards have been made wherever required and have been properly authorized by the management of the parent.

The internal audit of the subsidiaries may be carried out internally or outsourced to a CA firm.

Verify that the internal audit of the subsidiaries has been carried out w.r.t. the following aspects:

- a) Verify that accounting records and statements are prepared in accordance with generally accepted accounting principles.
- b) Verify the accounting procedures, including accounting for interest and other income, booking of expenses under correct heads including expenses booked for shared services.

Reviews the operating activities, controls and policies to ensure that such activities comply with internal and regulatory guidelines.

CHAPTER-9

INTERNAL AUDIT REPORT (IAR)

End result of every audit exercise is a report. The report is the medium of communication to the management about the findings of Internal Audit. Auditors like Statutory Auditors, Government Auditors, ISO Auditors, Rating Agencies and Vigilance Division etc consider Internal Audit Report as a basis for their scrutiny and also confidence on internal controls. Therefore, Internal Audit Report has to be prepared with utmost care.

The report needs to be self-contained, should contain scope and limitations, if any, of the work done and the examination carried out. The scope part is as important as the opinion part because the opinion or recommendations are conditioned within the scope of the work and sets the boundary for the examination carried out.

When the scope and nature are spelt out in the report, the readers of the report will be in a position to assess the implications of the opinion more clearly, and can be expected to exercise their judgment on the opinion expressed in internal audit report.

9.1 Basic Elements of the Auditor's Report

According to the Standard on Internal Audit (SIA) 4- Reporting, The internal auditor's report should contain a clear written expression of significant observations, suggestions/recommendations based on the policies, processes, risks, controls and transaction processing taken as a whole and managements' responses.

The auditor's report shall contain the following elements, ordinarily, in the following layout:-

Part-I

- a) Title;
- b) Addressee;
- c) Coverage (Period)
- d) Duration of audit
- e) Composition of Audit Team

- f) Opening or introductory paragraph (including the work handle by the auditee unit)
- g) Organisational structure of auditee unit
- h) Scope of audit
- i) Records reviewed and sample size in case of test check
- j) Non production of records, if any
- k) Executive Summary

Part-II

- l) Performance Review of any area(s) of the Auditee unit
- m) Audit Observations (Audit Paras)
- n) Significant Observation- requires immediate action / attention.
- o) Other Observations - requires rectification / strengthening of controls
- p) Recommendations
- q) Annexures/Exhibits to the Report

Part-III

- r) Review of outstanding paras from earlier reports
- s) Concluding paragraph
- t) Circulation List to whom report to be issued including dual responsibilities observations.

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding of the auditor's report.

Internal Audit Team will take assurance from the Chief Project Manager/HOD regarding internal control in various processes (as per the given format) and audit firm will also make available assurance regarding internal controls and enclosed with the report.

References

Formulation of REC Internal Audit Manual has been done consulting references from following documents:-

- a) REC Accounting Manual;
- b) REC Prudential Norms;
- c) Project & Entity Appraisal Guidelines
- d) Quality Control Manual (ISO);
- e) Exposure Norms of the Corporation;
- f) Accounting Standard issued by ICAI;
- g) Companies Act & CARO guidelines;
- h) Guidelines on STL/SI Schemes/RGGVY/Generation Schemes
- i) Standard on Internal Audit issued by ICAI;
- j) Fair Practice Code of REC;
- k) Fraud Policy of the Corporation;
- l) Loan Policy Circulars;
- m) RBI notifications / circulars for NBFC /Infrastructure Finance Company;
- n) Listing Agreement;
- o) Various circulars issued by Vigilance;
- p) ERP Manual
- q) Minutes of BOD/Audit Committees/Other committees of Board;
- r) Other relevant circulars issued by MOP/DPE/GOI/SEBI/RBI etc from time to time and
- s) Internal Audit Manuals of similar PSU organization such as PFC, IOC etc.

Disclaimer: This Manual has been drafted based on present Internal Audit Practices in REC and statutory stipulations in force. Being the subject is of contemporary nature, the actual implementation need to be done in consonance of updated rules and regulations. The Manual is for use of internal purpose and no contents be used otherwise without prior approval of REC.



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ICAI ARF/2010

28th October 2010

CA. Rakesh Kumar Arora

(HOD, Internal Audit)

Rural Electrification Corporation Ltd.

Core-4, Scope Complex,

New Delhi-110003

Subject: Project for vetting of “Internal Audit Manual” of REC Ltd.

Dear Sir,

This has reference to your office letter dated 24th June 2010 regarding vetting of “Internal Audit Manual” of REC, keeping in view the Accounting Standard/Guidelines issued by the Institute of Chartered Accountants of India, current practices prevailing in the Industry viz. Banks/Financial Institutions/NBFC etc., latest statutory laws, RBI guidelines, SEBI requirement with specific requirements’ of REC.

Keeping in view the above, the ICAI Accounting Research Foundation (ICAI-ARF) conducted meetings with the officials of REC for discussing the expectations from the ICAI-ARF and the present practices of Internal Audit Division in REC. We are pleased to inform you that ICAI-ARF has completed the vetting exercise as per the aforesaid scope of work. ICAI-ARF has also ensured that REC Internal Audit Manual focuses on the issues related to specific requirements of REC Business operations.

I sincerely believe that REC Internal Audit Manual (2010) will be very useful for Internal Audit Division of REC as well as for the Auditee Divisions and will help in further strengthening the efficiency and overall growth of the REC. On behalf of the ICAI-ARF, I sincerely thank for the excellent cooperation and support we got from you and other officers in finalization of the REC Internal Audit Manual (2010).

Thanks & regards,

CA. (Prof.) Gourav Vallabh

Director

ICAI Accounting Research Foundation