

## **AUDIT & INSPECTION**

### **1. INTRODUCTION:**

With the growth of business and increasing activity of the Corporation added with extensive delegation of powers/authority at different level, it has become imperative for the Corporation, like other larger organisations to evolve a system of continuous check and control. Strengthening and strengthening of such system is all the more necessary especially keeping in view the operations of the Corporation, which are development oriented . Obviously, the scope and objective of Internal Audit should not be limited to accounting but also management audit involving control of operations and evaluation of functional performance so that in addition to the internal checks and control such an audit can provide a meaningful feed back to the management for taking remedial and innovative measures.

### **2. OBJECTIVE & FUNCTIONS**

Within the broad frame work of State Financial Corporation Act, 1951, the main objectives and functions of Internal Audit & Inspection of RFC would be as under:

- i) To assist all the members of the management in the effective discharge of their duties and responsibilities by furnishing them objective analysis, appraisal, recommendations and comments in respect of the activities reviewed by it.
- ii) To ensure that the corporate objectives and policies are correctly interpreted and strictly adhered to.
- iii) To ascertain the extent of compliance with the established policies and procedures.
- iv) To ascertain the extent to which the institutional assets are accounted for and safeguard from losses of all kinds.
- v) To review the soundness, adequacy and application of accounting, financial and operational controls.
- vi) To ascertain whether various operating functions are in accordance with the laid down procedures and policies and are being implemented effectively to achieve the desired objectives.
- vii) To verify whether sufficient controls and checks for preventing irregularities and frauds actually exist in the operating departments.
- viii) To ensure whether the affairs of the Corporation are conducted keeping an eye on economy in expenditure and labour.
- ix) To offer suggestions for streamlining the procedures with a view to ensure that the Corporation is able to discharge its functions in an efficient and effective manner.
- x) To conduct investigations in certain specified areas as may be desired by the top management.

- xi) To establish close liaison with the statutory auditors on the matters relating to accounting systems and principles and compliance with legal requirements in respect of presentation of accounts.

**NOTE:** The above functions do not in any way relieve or reduce the responsibility of the operating departments for establishing and enforcing procedures and exercising controls.

2. **SCOPE OF WORK:**

It is neither possible nor desirable to lay down the duties of the Internal Audit elaborately. As the team is constituted from the experienced employees, it is expected that the teams should put all efforts to discharge their duties in such a way to safeguard the interest of the Corporation.

**LOANS:**

- i) Delay in disposal of Loan Applications
- ii) Checking of all loan application whether closed or sanctioned.

**FINANCE:**

- i) Whether the bank Account and funds are properly maintained
- ii) Whether the disbursement note is properly prepared before ensuring compliance of the condition(s).
- iii) Whether any undue delay occurred in disbursement of loan.
- iv) Whether proper and timely reconciliation of Bank has been done.

**PERSONNEL & ADMINISTRATION**

- I) The instructions laid down for the conduct of Corporation's business are complied with.
- II) The strength of staff for each office/departments/section is fixed with reference to volume of work and the staffing patterns correspond to operational responsibilities and needs from time to time.
- III) There is a proper system of man power planning, development and utilization.
- IV) To ensure that personal files & Service Books of the employees are completed in all respect.

**ACCOUNTS:**

- i) The books of account and Registers are properly maintained, checked, authenticated and balanced periodically and all transactions are properly accounted for.
- ii) Cash, securities and other valuables, as per books, exist physically and the arrangements for their custody are adequate.
- iii) To carryout 100% audit of documentation and accounts particularly with reference to rate of interest, repayment schedule etc. so that remedial measures may be taken promptly. A list of the accounts may be enclosed with the Audit Report in which rectification is carried out during the course of Internal Audit.
- iv) To check all the journal vouchers and memorandum journal vouchers with regard to correctness.
- v) To check and verify each and every change in interest rate during the audit period.
- vi) To check Master Dump of each and every new account opened during the audit period.
- vii) General review of Cash Book and detailed check of all vouchers.
- viii) To check the Bank Reconciliation Statement.
- ix) To check the Head Office reconciliation.

**LAW:**

- i) Documents obtained from borrowers are complete and enforceable and advances are adequately secured.
- ii) Whether any delay is occurred in execution of loan documents.
- iii) To check that all the legal formalities are fully complied with for execution of loan documents.
- iv) To ensure whether all the terms and conditions of sanction of loan have been fully complied with before execution of loan documents.
- v) To carry out 100% physical verification of original title documents of collateral securities taken during the audit period.

**FOLLOW-UP & RECOVERY:**

- i) To ensure whether inspection of units are being conducted by all the officials as per norms of the Corporation.
- ii) To ensure whether 100% physical verification of collateral securities has been carried out during the audit period.
- iii) To examine the cases of closed units, units under possession, deficit cases, decretal cases, write off cases. BIFR cases and other NPA cases.
- iv) To examine all the cases of default in which loan is sanctioned on and after 01.04.2000.
- v) To examine all the cases filed Under Section 32(G)
- vi) To check all the cases in which default is more than two consecutive instalments of principal or interest.
- vii) To check whether PDCs are being taken as per sanction of loan and also being lodged with the banks on due dates and action is being taken U/S 138(b) of N.I. Act for dishonoring of cheques against the units. The availability of remaining PDCs in the branch may also be checked.
- viii) To examine all the cases settled under OTS Scheme whether they are paying as per settlement.

**GAD**

- i) To report whether the assets of the Corporation are properly accounted for and are safe.
- ii) To confirm that the physical verification of assets has been carried out by Branch Office and to take certificate from the head of branch.
- iii) To ascertain the unusable/surplus furniture & fixtures and other assets and to suggest the disposal/other use of the same.
- iv) To ensure that action for weeding out the record has been taken by the branch office.
- v) To ensure whether action for weeding out is being taken as per norms.

**GENERAL:**

- i) Periodical returns from Branch Offices to Head Office and from Head Office to Government etc. are complied and submitted regularly and timely.
- ii) The prescribed procedures and systems of internal check and control are adequate to protect the Corporation's interests and prevent frauds & malpractices.
- iii) There is no deficiency or dereliction of duty at various operational levels.

**NOTE:**

- a) Audit and inspection of various Sections at Head Office shall also be carried out on the basis of existing circulars and guidelines.
- b) The Internal Audit Report should cover each and every deficiency and if any deficiency is noticed by the audit it should be mentioned in clear terms along with the supporting documents. Opportunities given to branch/section at HO to submit the required information should be mentioned. Unnecessary para/objection should not find place in the audit report.

3.

**DUTIES OF AN INTERNAL AUDITOR:**

It is neither possible nor desirable to lay down the duties of the Internal Auditor in full detail. As an officer of experience, he is expected to bring his knowledge to bear on the problems of the departments and offices he is auditing & inspecting in such a way as to benefit the interests of the Corporation to the fullest extent. Subject to the above observations, his main duties will be to ensure that:

- i) The instructions laid down for the conduct of Corporation's business are compiled with.
- ii) The books of account and Registers are properly maintained, checked, authenticated and balanced periodically and all transactions are properly accounted for.
- iii) Cash, securities and other valuables, as per books, exist physically and the arrangements for their custody are adequate.
- iv) Documents obtained from borrowers are complete and enforceable and advances are adequately secured.
- v) Periodical returns from Regional/Branch Offices to Head office and from Head Office to Government etc. are compiled and submitted regularly.
- vi) The prescribed procedures and systems of internal check and control are adequate to protect the Corporation's interests and prevent fraud malpractice.
- vii) There is no deficiency or dereliction of duty at various operational levels.
- viii) The strength of staff for each office/departments/section is fixed with reference to volume of work and the staffing patterns correspond to operational responsibilities and needs from time to time.
- ix) There is a proper system of manpower planning, development and utilization.
- x) To assess the performance of the department/office in respect of various operational work devolving on it.
- xi) To report whether the assets of the Corporation are properly accounted for and are safe.

4.

**AUDIT PROGRAMME / TEAMS**

4.1

With a view to have effective and regular Internal Audit/Inspection and follow-up thereof, three zones headed by DGM(A&I) have been created to carry out regular Internal Audit and Inspection of the Branches, and different Wings in Head Office. Unless notified otherwise Branches attached to the each Zonal Offices will be as under:-

**1. Eastern Zone (A&I),HO.Jaipur**

- (1) Alwar, Dholpur, Bharatpur, Bhiwadi & Nimrana
- (2) Jaipur City, Jaipur Rural, Jaipur-VKIA, Dausa, Tonk Sikar & Jhunjhunu
- (3) Kota, Sawaimadhopur, Jhalawar

**II Western Zone (A&I), Jodhpur**

Jaisalmer, Jodhpur, Balotra, Pali, Abu Road, Jalore, Churu, Bikaner, Sriganganagar, Hanumangarh

**III Central Zone,(A&I),Ajmer**

Ajmer, Kishangarh, Makrana, Nagaur, Beawar, Bhilwara, Rajsamand, Chittorgarh, Banswara, Udaipur

4.2 The programme of Internal Audit for the Branches and the different Wings of Head Office would be scheduled by the DGM(A&I) of the concerned zone and would be conveyed in advance to the respective field office after obtaining formal approval of audit programme from GM(A&I)/CMD. DGM(A&I) would be free to make appropriate modification/adjustment in the audit programme of the Branches under his zone depending upon the exigencies/convenience. However, it should be ensured that as far as possible, reasonable advance notice is sent to the concerned office intimating the programme of Internal Audit ( In case of inspection it will not be necessary that the programme of inspection should be intimated in advance).

**NOTE:** While recommending the audit programme, it has to be ensured that every Branch and Section in Head Office is audited at least once in a year apart from special functional audit, if any.

4.3 The DGM (A&I) would depute a reasonable number of officers/staff ( not less than two persons). Depending upon the strength/status and area of operation of the office to be audited. He would also decide duration of the audit accordingly. However, as far as possible the so constituted team should conduct Internal Audit within a period not exceeding 10 days.

**4.4** It is expected from the Internal Audit team that they should carry out thorough audit of the concerned office/section, keeping in view role, objectives and guidelines laid down in foregoing paras. The audit should also not only be confined to audit of files/vouchers etc. but on random basis the team should also carryout physical verification/inspection of some of the industrial units to know the utilisation of the financial assistance by the Corporation and watch and ward arrangements of industrial units in our possession. The team is also expected to verify physically the furniture, fixtures, files and cash with the Branch Special emphasis is to be given in the follow-up and adherence of the guidelines and instruction is issued to field offices from Head Office from time to time, evaluation of the performance of the office within the frame work of the objective of the Corporation, maintenance or records and files and also the practical problem and difficulties being faced by the branch office with regard to adherence to the procedures and guidelines. The team should keep a checklist with it so that every aspect of the functioning of the Branch is taken care of during audit.

**4.5** As far as possible, in the concluding dates of the audit, DGM(A&I) should himself visit the office under audit to finalise audit report after discussions with the incharge of the office under audit and also to see the compliance of outstanding paras of earlier reports.

## **5. ISSUE OF REPORT**

**5.1** After completion of the Internal Audit the audit report should be finalised as early as possible (generally within 15 days of the completion of audit) and should be issued to the concerned Branch Office in two copies after obtaining its approval from GM(A&I)/CMD. A note highlighting the important shortcomings/deficiencies observed during audit should be put up to CMD for information. Every report should have a separate file for the purpose of follow-up and compliance.

**5.2** A summary of important shortcomings/deficiencies, observed during audit should also be put up before the Board for information quarterly along with the details of the audits carried out by the reporting officer.

## **6.0 ACTION TO BE TAKEN BY THE OFFICE TO BE AUDITED.**

The Branches under audit are expected to follow the following guidelines with regard to audit:-

- i)** The audit party should have free access to all the papers, documents and files registers etc. maintained in the Branch.
- ii)** An officer of the office under audit should be made responsible to ensure supply of the documents and details observed by the audit para.
- iii)** All possible facilities/help should be extended to the internal audit party so that audit work is completed in shortest possible time.

**7.0 FOLLOW-UP ACTION ON AUDIT REPORTS:**

- 7.1** The very objective of the Internal Audit would stand defeated if timely follow-up action is not taken on the comments/observation in the audit report. Therefore, no sooner audit reports are issued, the incharge of the office under audit are required to initiate action on the comments/observations made in audit reports with a view to regularise the irregularities and send necessary clarifications. In this connection, following guidelines are suggested.
- 7.2** Audit and Inspection report and subsequent communication there of should be treated as important communication and recorded accordingly for monitoring purpose by the In charge of the office so that these reports do not escape attention of the in charge of the office.
- 7.3** Dy. Manager/Asstt. Manager (A/cs) should open a separate file for each report for timely compliance. He is also to see that paras requiring compliance by different Cell/Section of the Branch are bifurcated and sent to the concerned incharge of the Cell in the Branch for taking follow-up action.
- 7.4** The Incharge of the concerned cell should deal all the observations on respective files from where the irregularity observation has emanated and initiate necessary follow-up action and obtain approval of the Branch Manager on the action/comments so finalised by him. The comments should be passed on to Dy.Manager/Asstt. Manager(A/cs) for sending consolidated reports to DGM(A&I).
- 7.5** If rectification of any error of regularisation of any irregularity requires approval of HO it will be the responsibility of the Head of the unit under audit to approach the appropriate authority to get necessary approval ( Internal Audit would not take up or follow-up such cases in HO).
- 7.6** In case follow-up of any observation by Internal Audit/Inspection seeking explanation/clarification from an officer who has since been transferred at some other place, it would be the responsibility of the present Head of the unit under audit to seek such clarification from the officer by making written reference at his present place of posting under intimation to Internal Audit.

**NOTES:**It is not necessary always that in compliance of audit report, follow-up action should be taken in the manner suggested by audit report. If it is a matter of interpretation and the office has different views they suggested in audit, the in charge of office can send his view points/comments for further examination/guidance in the matter & also in the matter of verification of facts. However, if the officer agree with the facts /suggestions in the report, the compliance should be sent without delay.

- 7.7 A copy of the compliance/comments on the respective para should be kept in the concerned file with appropriate note on the note-sheet if any further action is to be taken in compliance of the observation of Internal Audit.
- 7.8 A consolidated reply should be sent to DGM(A&I) under the signature of the Incharge of the office audited.
- 7.9 The same procedure should be adopted on receipt of further communication from DGM(A&I) on the reply/compliance sent by the Branch.

**Note:-** It should be ensured that comments/reply are finalised within 15 days ( note exceeding 30 days in any case) on receipt of audit report/communication from DGM(A&I).

- 7.10 A list of the paras dropped and paras outstanding at the end of the month should be incorporated in MR. The MIS of the individual Branch Manager should invariably contain a summary of outstanding paras of all the inspection/audit reports not settled finally.
- 7.11 The Nodal Officer are also advised to review the outstanding paras of the audit/inspection report during the course of their visits to the Branch and take appropriate action for sending compliance report. They should also keep a copy of the audit report in their MIS files of as to see that irregularities having continuing impact are immediately rectified and also to take up at their own level to prevent the occurrence of such irregularities.

## **8. FOLLOW-UP ACTION AND AUDIT REPORTS:**

The comments/compliance received from respective Branch Office would be examined in the office of the concerned DGM(A&I). If the reply/compliance are satisfactory, the paras containing minor irregularities with suggestive action would be dropped at the level of DGM (A&I)/GM (A&I). Comments/compliance on paras having serious irregularities would be put up to CMD through GM(A&I) for taking a final view. If the matter requires further enquiry or disciplinary action, the same would be referred to ED for initiating departmental disciplinary action.

## **9. NON- COMPLIANCE**

Any carelessness, delay or laxity with regard to compliance of Audit Inspection Report within time prescribed would be treated as dereliction of the duty and would invite disciplinary action against erring officials. The non receipt of compliance on any para of audit report would mean that the Head of the office under audit has accepted the irregularity without any satisfactory explanation. GM(A&I) would be required to send a note to ED at the end of the every year indicating the performance of the Branch/office audited with regard to the compliance of the Audit and Inspection Report and the irregularities observed.



**10. INSPECTION:**

- 10.1** Apart from regular internal audit, the Audit & Inspection wing has also been assigned to task of carrying out inspection of the Branches, although the responsibility of regular quarterly inspections of the Branch would continue to be with Nodal Officer. These Inspections should generally be carried out by an officer not below the rank of DGM, of course for special/detailed investigations. Some other officer can be deputed for this task. The basic aim of this inspection would be to ascertain whether the various operating functions are in accordance with the laid down procedures and policies and are implemented effectively and timely to achieve the desired objectives. The inspection would also include conducting investigations in certain specified areas as may be desired by the CMD.
- 10.2** It would always not be necessary to send the programme of inspection in advance. Programme of inspection would be finalised by the Inspecting officer after obtaining approval of next higher authority. During Inspections it would be obligatory on the part of the In charge of the unit, to be inspected to furnish relevant information and documents available in the office as may be desired by the Inspecting officer and provide necessary help in conducting the inspection and arrange visit of industrial units or any other establishment, if so felt necessary by the Inspecting Officer.
- 10.3** As far as possible, the Inspecting Officer conducting inspection/investigation would refrain from passing on any instruction/order on a particular case/issue. However, if in the opinion of the Inspecting Officer, if it is essential to safeguard the interest of the Corporation and any delay may jeopardise the interest of the Corporation, he can give a note to Head of the unit with his observations and advise which would be treated as an order, if the Inspecting officer happens to be in the rank/cadre higher than the incharge of the unit under inspection.
- 10.4** The Inspecting Officer should submit his inspection report immediately ( within a week) on completion of inspection to GM(A&I)/CMD for taking further action.
- 10.5** After approval of GM(A&I)/CMD the abstract of relevant portion of inspection report should be sent to the Head of the unit inspected for taking up follow-up action. The follow-up action on the inspection report should be taken in the same manner as prescribed for follow-up of Internal Audit Report.

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