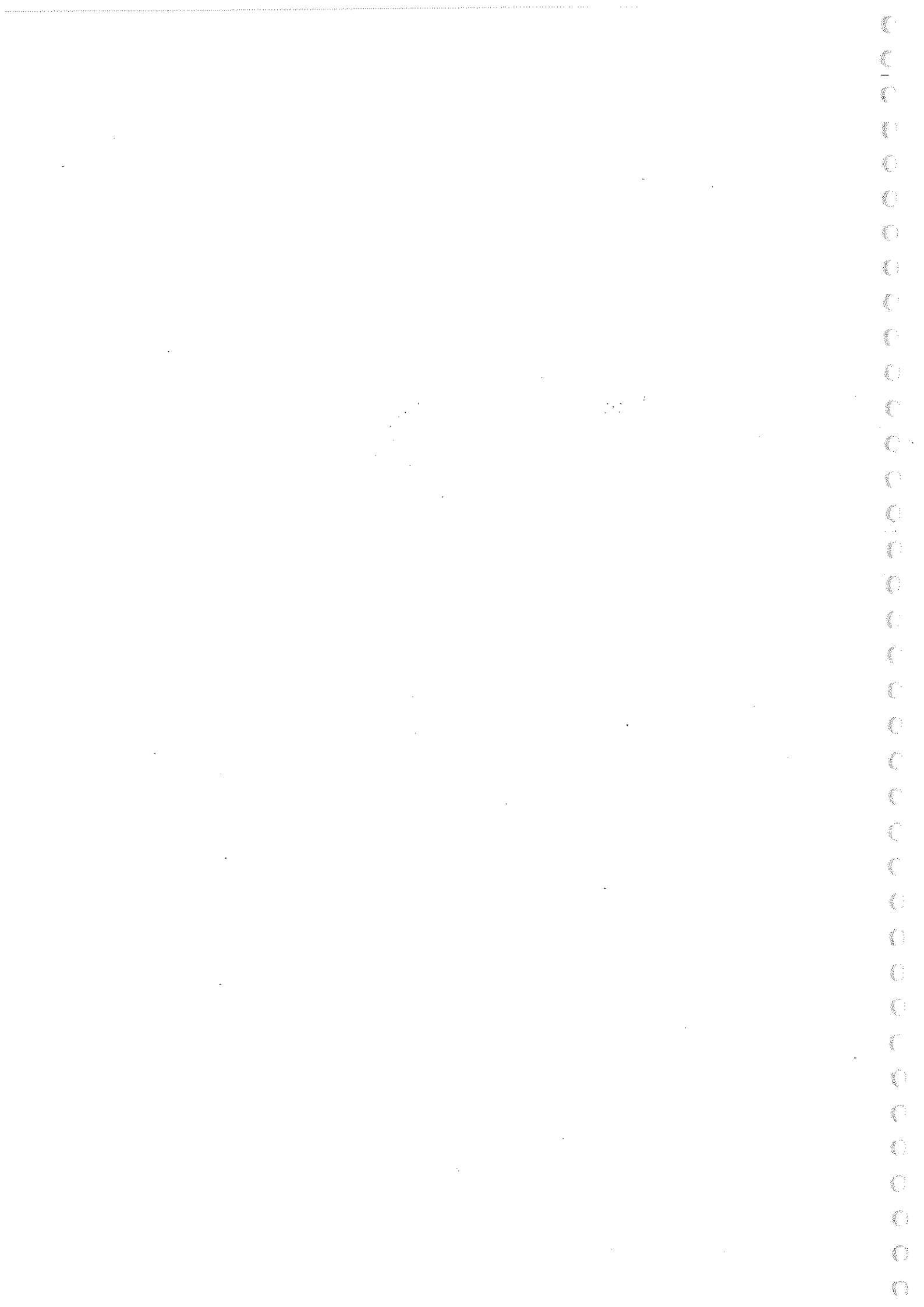




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*Dedicated Freight Corridor Corporation of India Ltd.
(A Government of India Undertaking)*

INTERNAL AUDIT MANUAL





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DEDICATED FREIGHT CORRIDOR CORPORATION OF INDIA LIMITED

INTERNAL AUDIT MANUAL

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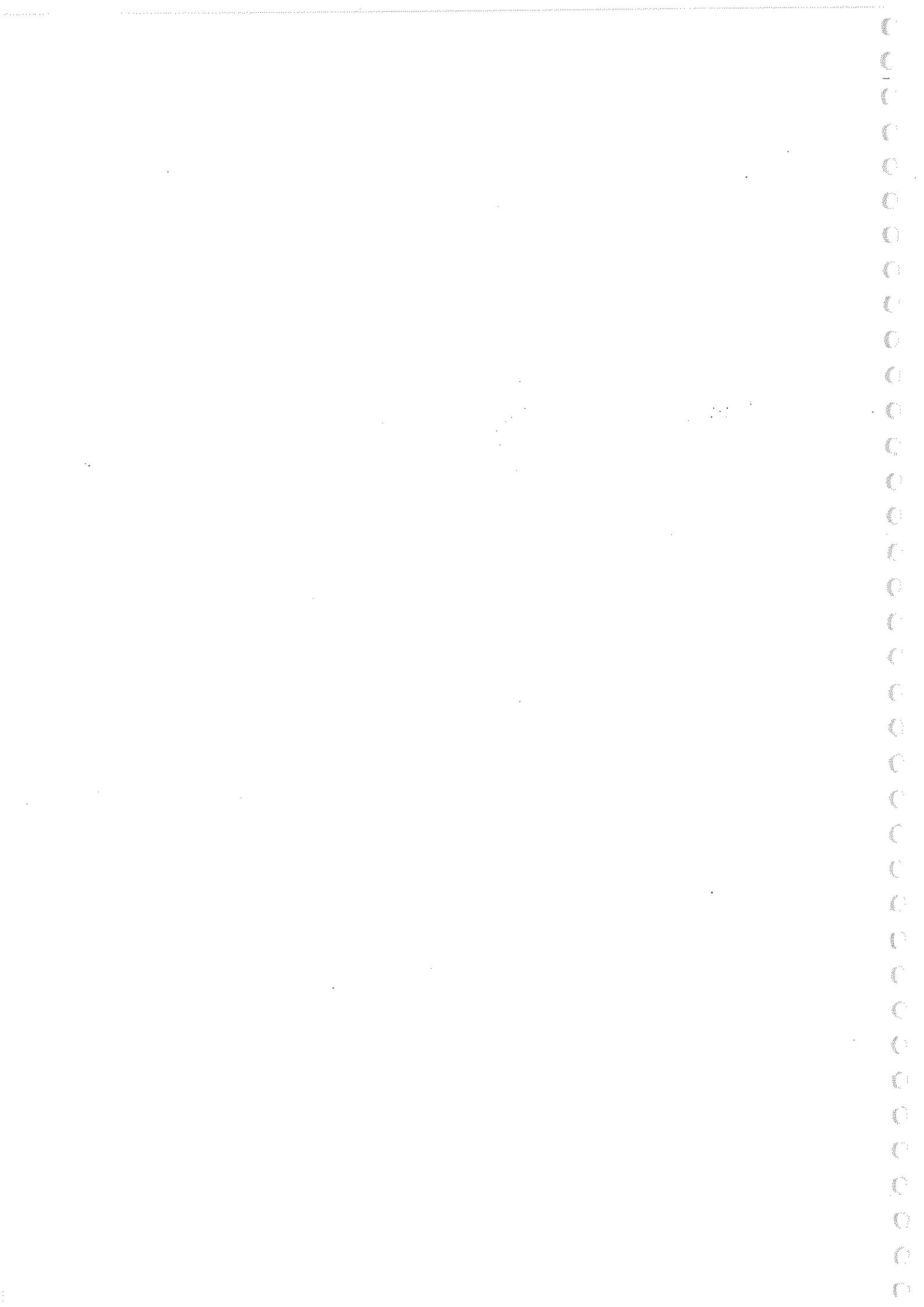
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CHAPTER -I

INTRODUCTION

ABOUT DFCCIL AND ITS PRACTICE

Government of India has embarked on a long-term, strategic plan to construct high-capacity, high-speed, dedicated freight corridors along the golden quadrilateral and its diagonals by establishing Dedicated Freight Corridor Corporation of India Limited (DFCCIL), a wholly-owned subsidiary of Indian Railways, and an independent corporate entity registered under the Companies Act, 1956. DFCCIL has been established as a separate Special Purpose Vehicle for undertaking planning & development, mobilization of financial resources and construction, and thereafter, maintenance and operation of the dedicated freight corridors. It is, therefore, a project management company during the construction phase and an infrastructure operations and maintenance management company thereafter.

During the Construction phase, success of DFCCIL is contingent of its effectiveness in constructing the dedicated freight corridors with minimal cost and without time overruns.

During the Operations phase, its success is determined by its ability to maximize the fluidity of traffic over its network with the lowest operations and maintenance cost. The business strategy for DFCCIL must necessarily entail two separate elements during the two phases of its life cycle:

- i) Investment and Asset Creation with minimal cost and time overruns during Construction Phase
- ii) Efficient and effective Operations & Maintenance Management during Operation Phase

Given the size and scale of rail infrastructure that is mandated to be designed, created and then maintained and operated, implementing sound business processes and standardizing systems supported by state of art technology is critical. In this regard, Ministry of Railways has empowered DFCCIL to institutionalize international best practices in terms of technology, systems, processes and business operations.

DFCCIL has its Corporate office at New Delhi. Besides 14 field units have also been established which are headed by Chief Project Managers. These units are identified as Profit Centers/Units/Branches.

The bills for work done by contractors and for other expenses are processed and passed in Corporate and Field offices as the case may be. But the salary is processed centrally in Corporate Office. The expenditure incurred in field units is passed and payment made at field units.

Currently, however, the accounting entries of the expenditure done as well as other financial transactions done at the Field level are centralized in Corporate Office. Original Vouchers prepared in field offices by DFCCIL staff are sent to Corporate Office in regular flow so that all the accounting entries are made in time for accounting purposes. It is required that copy of all the Vouchers prepared in field offices by DFCCIL staff should also be kept by respective field units for record purposes. All vouchers are sent by field units to Finance & Accounts department Corporate Office. All vouchers are then entered/posted in accounting software namely Tally ERP by accounting firm appointed for the purpose. All the original vouchers after entering in accounting software are kept unit wise in the custody of Corporate Office. As the accounting has been done at Corporate Office and original vouchers are kept in Corporate Office, it is necessary that ledgers and other accounting records as generated by accounting software pertaining to each Field Unit are sent to respective field units on regular basis for the purpose of record, reconciliation and audit.

This manual describes the system of internal audit to be followed in DFCCIL covering various domains viz., objectives of internal audit, the periodicity, the quantum and extent of checking, the audit program for conduct of audit, deliverables, the follow up of reports, settlements of deficiencies pointed out in the report and system of ensuring compliance of internal audit observations. It may please be noted that these guidelines should not be regarded as exhaustive and auditor is not merely to confine to these. Depending on the exact situation, auditors are supposed to analyze the matters and incidental requirements in perspective of business prudence and ethics.

The internal audit system as described in this manual shall be reviewed when need arises.

1.1 ROLE OF INTERNAL AUDIT

Two main roles of internal audit are:-

- Comment on process and existence of adequate internal control systems and compliance therewith.
- Comment on existence of proper risk assessment and mitigation mechanism.

The role and functions of internal audit in DFCCIL must be in keeping with the dynamics of progress of its objectives. Following aspects of internal audit are to be kept in mind while deciding upon its role, scope and responsibility:-

- It is an audit instituted by the Management itself to know correctly about the performance of the Company. It is, therefore, for the Management to frame the scope, role and frequency etc. of internal audit. Good practices in this respect may be suggested by external bodies but the ultimate responsibility in this respect vests with the Management of the Company.

- Certain responsibilities have been cast upon the auditor by the professional institutes in the form of guidelines and standards etc. which must be adhered to by the auditor.
- Internal auditor also acts as the eyes and ears of the Audit Committee and as such receives directions from it. The Statutory Auditor also places heavy reliance on the report of the Internal Auditor.

1.2 AIMS OF INTERNAL AUDIT

A Public Sector Undertaking is subject to two types of audit, Statutory Audit conducted by Auditors appointed by the CAG and audit conducted by CAG itself called Government Audit. The aim of the former is primarily to ensure compliance with the provisions of the Company Law, Accounting Standards and other statutory requirements. The aim of the latter is mainly proprietary audit. Both the above requirements are external in nature to the Company.

It is imperative for the Management to satisfy itself that its financial transactions are being conducted in a manner that meets all legal requirements and are also simultaneously in the best commercial and financial interests of the Company. The Management does this by carrying out inspections and its own audit of the performance of the Company at frequent intervals. This is called 'Internal Audit' to distinguish it from 'External Audit' i.e. Statutory Audit and Government Audit.

The internal audit is also to ensure that the systems followed in the Company are such as would satisfy the external auditors keeping in view corporate governance and its transparency.

Internal auditing is being widely accepted as an effective control device for efficient and effective management of economic enterprises, comprising a complete financial and operational review. As per the modern concept of internal auditing, the internal auditor apart from reviewing routine accounting procedures and policies, also evaluates the performance of management processes to determine whether there has been effective and efficient utilization of the resources of the enterprise. For such a review and evaluation, the internal auditor must possess knowledge of the technical, commercial and other aspects of the operations of the enterprise concerned.

1.3 METHOD OF INTERNAL AUDIT

Internal Audit is to be conducted by DFCCIL's own audit party or it may be entrusted to firms of Chartered Accountants to various Locations/Units/Corporate Office. The Internal Audit Program for the financial year is approved by the Director Finance. The Director Finance also approves whether it will be audited by outside firms or in house executives/ officers.

The appointments of the outside firms, setting terms and conditions of appointment as well as audit fee are approved by the Audit Committee. In case of audit by in house officers, the nomination of officers for this purpose is done by the Director (Finance).



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Certain responsibilities have been cast upon the auditor by the professional institutes in the form of guidelines and standards etc. which must be adhered to by the auditor.

Internal auditor also acts as the eyes and ears of the Audit Committee and as such receives directions from it. The Statutory Auditor also places heavy reliance on the report of the Internal Auditor. DFCCIL has constituted an Audit Committee comprising government nominee and non-official part-time directors of the Company.

1.4 OBJECTIVES OF INTERNAL AUDIT

The objectives of internal audit in DFCCIL can be broadly summarized as under whereby the internal auditor should ensure that:

- To review the adequacy and effectiveness of the systems in force in DFCCIL,
- To examine the system of internal check in operation and to ensure that frauds, misappropriation, deflections are not only detected but also prevented.
- To point out areas of weakness which needs to be strengthened and suggest remedial Measures.
- To confirm the existence of financial propriety in all decisions & determining compliance to the Government & Statutory requirements.
- To ensure proper and adequate MIS exists for different levels of Management
- To ensure that physical examination and verification of tangible asset is carried out.
- To ensure that all weak areas are duly strengthened within stipulated period.
- To review the performance of various functions in the light of budgeting and to suggest cost reduction measures, if any.
- An internal auditor is expected to comment on process and existence of adequate internal control systems and compliance therewith. Also comment on existence of proper risk assessment and mitigation mechanism.
- To associate with management in their surprise check / inspections whenever asked for. To conduct special assignments and investigation on behalf of management into any matter or activity affecting the interest of DFCCIL.

1.5 AUDIT CIRCLE

For the purpose of internal audit all the offices have been divided into Audit Circles / Units. Each Circle Unit consists of Offices located in a particular geographical area. Internal audit may also be carried out both by in house personnel as well as by engaging reputed firms of Chartered Accountants preferably located in the Audit Circle /Unit itself.

1.6 INTERNAL AUDIT MANAGEMENT

The conduct of internal audit is controlled and monitored by the Internal Audit wing of Corporate Office.

The Internal Auditor must draw up the program for conduct of the audit of regions allotted to them in consultation with the Unit/Corporate Office. Before taking up the actual audit of Units Internal Auditor must indicate his program well in advance to the Unit Head so that he can keep all the documents ready to avoid wastage of time and also enable the regional head to be present at least on the last day of Audit. The Audit must end with an elaborate meeting with Chief Project Manager, the Unit Head covering the issues raised in Audit.

The internal auditor when commencing the work should report to Chief Project Manager, the Unit Head of the concerned regions. An Audit Startup Report containing the date of starting of the audit, target date for completion of audit and the names, designations and qualifications of persons starting audit should be drawn up and countersigned by Chief Project Manager, the Unit Head. After completing the audit at the regions a letter should be obtained from Chief Project Manager, the Unit head by the Team Leader of Internal Audit Team containing date on which audit was closed at Unit Office and time spent by the audit team. Minutes of the exit meeting should also be drawn up.

During the conduct of audit, the Auditor will first comment on the compliance of audit observations pertaining to the previous phase /period.

Since the auditors have to complete their work within a given period of time it is usually not possible for auditors to check all the transactions in complete detail. Auditors have, therefore, necessarily to rely on sample audit. While the auditors are at full liberty to exercise their own judgment regarding the importance of any transaction and the sampling technique to be, some important items of work and the sampling method to be adopted has been indicated in relevant chapters. As far as possible, the auditor should follow the sampling method recommended in the Manual.

1.7 REPORTING FORMAT & REPORTING REQUIREMENTS

At the close of the audit, the auditor must prepare his Report in four parts as under:

- Part-I** Compliance observations reported in earlier Internal Audit Report.
- Part-II** Important items which, in the opinion of the Auditor, should be brought to the notice of the Audit Committee and the top management including the Board of Directors. This report shall be submitted to DF.
- Part-III** Issues which can be tackled at the level of the DGMs and such a report shall be submitted to the officer nominated by DFCCIL for

disposal of such reviews.

Part-IV Suggestion for systems improvement.

Special Report

Irregularities of serious nature noticed during audit may be reported to the Corporate Office through a **special report**, who would bring it to the notice of Audit Committee.

Draft Report

The auditor must discuss the Draft Report with Chief Project Manager, the Unit Head before drawing up the final report and make a specific mention of this in his Report. Signature of the Chief Project Manager may be obtained in the draft report as a proof of having discussed the observations with the Unit Head. The auditor must hand over one copy of the Draft Report to Chief Project Manager for necessary compliance and send two copies of the full Report in four Parts to the Internal Audit section of Corporate Office. All the discrepancies which can be rectified in the Unit itself should be rectified before issue of audit report.

On receipt of the Internal Audit Report, Corporate Office will immediately forward one copy to Chief Project Manager, the Unit Head and retain one copy for further action.

No para of the Internal Audit Report can be taken as closed unless satisfactorily resolved and certified by the concerned Internal Auditor. Outstanding para(s) will be carried forward to the next Report by the Internal Audit Section whether or not it figures in Part-I of the Internal Auditor's Report.

However the auditors are required to adopt solution oriented approach while conducting the audit. They should identify the factors affecting the economy or profitability of the Unit and suggest solution to mitigate adverse impact.

1.8 ACTION TAKEN REPORTS

The Chief Project Manager, Unit Head should give due importance to the Internal Audit Reports. He should give clear cut and categorical replies to the observations in the Internal Audit Report including the dates of various events.

The Corporate Office will bring important Audit Observations along with the replies given by the Chief Project Managers, Unit Heads to the notice of concerned branch of Corporate Office, A copy of it will be put up to the concerned Director for his approval. The approved replies will be incorporated in the Internal Audit Report to be put up to the Audit Committee as Action taken Report (ATR).

The Action Taken Report must be put up to the Audit Committee not later than the next Audit Committee meeting held after two months of submission of Audit Report.

1.9 PERIODICITY OF AUDIT

Internal Audit shall be carried out on quarterly basis and audit is to be completed within 10-12 days of completion of the quarter. Internal Audit of unit shall be carried out in 2-3 days per units. The Internal Audit team shall consist of at least one qualified Chartered Accountant and 2 semi qualified Assistant or Article.

1.10 TECHNIQUES OF INTERNAL AUDIT

The subject matters for auditing, the methods and techniques of auditing etc. are well established. The Institute of Chartered Accountants of India has issued guidelines on the subject as well as Standard Auditing Practices which are to be followed by the auditors. This Manual, therefore, is not intended to deal with such aspects. The internal auditors are professional experts in their own right and need no education in the matter.

However, the guidelines are generic in nature. On the other hand, each industry has its own special features and peculiarities. For example, while the travel cost may be an important cost in a consultancy organization, or energy cost in a manufacturing organization, both are not very important in a telecom organization. In actual practice, therefore, the audit function becomes somewhat organization specific, in the sense that the auditor must take into consideration the special requirements of the nature and nuances of business of the company, industry practices, monitoring and control mechanisms required and existing at various levels, specific rules and procedures of the company etc.

1.11 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal auditor should suggest improvement to internal control and risk management systems. For this purpose, the internal auditor should:

- i) Obtain an understanding of the risk management and internal control framework established and implemented by the management.
- ii) Perform steps for assessing the adequacy of the framework developed in relation to the organizational set up and structure.
- iii) Review the adequacy of the framework.
- iv) Perform risk-based audits on the basis of risk assessment process.

1.12 FRAUD PREVENTION AND DETECTION

Fraud is defined as an intentional act by one or more individuals among management, those charged with governance, or third parties, involving the use of deception to obtain unjust or illegal advantage. The primary responsibility for prevention and detection of frauds rests with management and those charged with governance. They achieve this by designing, establishing and ensuring continuous operation of an effective system of internal controls.

The internal auditor should exercise due professional care, competence and diligence expected of him while carrying out the internal audit to enable him to identify indicators of frauds.

Internal controls can, however, provide only reasonable assurance to the entity with regard to accomplishments of its objectives. Since any system of internal control is subject to inherent limitations such as faulty human judgment, ineffective use of the information generated for the purpose of internal controls, collusion among two or more persons, management override of controls, faulty design of controls, management judgments as to nature and extent of risks it wants to assume, etc. The internal auditor should, however, help the management fulfill its responsibilities relating to fraud prevention and detection.

In the context of prevention of frauds, the internal auditor should specifically evaluate the policies and procedures established by the management to identify and assess the risk of frauds, including the possibility of fraudulent financial reporting and misappropriation of assets.

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.

1.13 GUIDELINES FOR INTERNAL AUDIT

It is essential to lay down some broad guidelines specific to the Company for the conduct of its internal audit. The guidelines would in a way also reflect the concerns of the Management at that point of time-the areas which the Management would like the internal auditor to look into more carefully. This Manual attempts to meet this need.

It must, however, be clarified that this Manual is only a guidelines. It should in no way be taken to restrict the initiative and independence of the internal auditor nor does it absolve him of the responsibilities devolved on him by his profession. In fact, the internal auditor is duty bound to use his best judgment in any given circumstances.

1.14 TERMS OF INTERNAL AUDIT 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. The terms of engagement of the internal audit, inter alia, define the scope, authority, responsibilities, confidentiality, limitation and compensation of the internal auditors. The terms of engagement should be approved by the Audit Committee. The terms should be reviewed by the internal auditor and the audit committee periodically and modified suitably, if required, to meet the changed circumstances.

1.15 ELEMENTS OF TERMS OF ENGAGEMENT

The following are the key elements of the terms of the internal audit engagement:

- i) Scope
- ii) Responsibility
- iii) Authority
- iv) Confidentiality
- v) Limitations
- vi) Reporting
- vii) Compensation
- viii) Compliance with Standards

1.16 SCOPE

The terms of the 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 internal auditors are expected to make their recommendations and value added comments.

1.17 RESPONSIBILITY

The terms of the engagement should clearly mention the responsibility of the auditee vis a vis the internal auditor. The auditee is responsible for establishing, maintaining and ensuring operating effectiveness of a system of internal control. The auditee would also be responsible for timely communication of material weakness or other significant issues relating to internal controls, misstatements in the financial information or similar matters to its external auditors, the Audit Committee, the Board of Directors, regulators and to those to whom the auditee is required to so communicate.

1.18 AUTHORITY

The terms of engagement should provide the internal auditor with requisite authority, including unrestricted access to all departments, records, property and personnel and authority to call for information from concerned personnel in the organization.

1.19 CONFIDENTIALITY OF WORKING PAPERS

The terms of engagement should be clear that the ownership of the working papers rests with the internal auditor and not the auditee. It should also be made clear that the internal auditor may, upon a request received in this regard from the auditee, provide copies of non proprietary working papers to the auditee. The terms should lay down the policy and the procedures to be followed regarding requests received for internal auditor's working papers from third parties including external auditors.

1.20 CONFIDENTIALITY OF THE REPORT

The engagement letter should contain a condition that the report of the internal auditor should not be distributed or circulated by the auditee or the internal auditor to any party other than that mutually agreed between the internal auditor and the auditee unless there is a statutory or a regulatory requirement to do so.

Limitations

The terms of engagement should specify clearly the limitations on scope, coverage and reporting requirement, if any.

1.21 WITHDRAWAL FROM THE ENGAGEMENT

In case the internal auditor is unable to agree to any change in the terms of the engagement and / or is not permitted to continue as per the original terms, he should withdraw from the engagement and should consider whether there is an obligation, contractual or otherwise, to report the circumstances necessitating the withdrawal to other parties.

1.22 DOCUMENTATION

The internal auditor should document matters, which are important in providing evidence that the audit was carried out in accordance with the Standards on Internal Audit and support his findings or the report submitted by him.

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 internal audit documentation would, therefore, generally, include:

- i) Engagement letter or the internal audit charter, as the case may be.
- ii) Internal audit plan and programme.
- iii) Papers relating to the staff requirement and allocation.
- iv) Copies of significant contracts and agreements or management representations on terms and conditions of those contracts.
- v) Internal review reports.
- vi) Evaluation questionnaires, checklists, flowcharts, etc.
- vii) Papers relating to discussions/ interviews with the various personnel including legal experts, etc.

- viii) Annual budget and development plan.
- ix) Progress report, MIS report.
- x) Reconciliation statements.
- xi) Communication with the client personnel and third parties, if any.
- xii) Certification and representations obtained from management.
- xiii) Copies of relevant circulars, extracts of legal provisions.
- xiv) Results of risk and internal control assessments.
- xv) Analytical procedures performed and results thereof.
- xvi) List of queries and resolution thereof.
- xvii) Copy of draft audit report, along with the comments of the auditee thereon and final report issued.
- xviii) Records as to the follow up on the recommendations/ findings contained in the report.

1.23 DOCUMENT RETENTION AND ACCESS

The internal auditor should formulate policies as to the custody and retention of the internal audit documentation within the framework of the overall policy of the entity in relation to the retention of documents. The internal auditor retains the ownership of the internal audit documentation. While formulating the documentation retention policy, any legal or regulatory requirements in this regard also need to be taken into consideration. Management and other designated personnel may seek access to the internal audit documentation of the internal audit department subject to the approval of the internal auditor and client or such other third party may seek access if there is any legal or regulatory requirement or as may be permitted by the client.

After the assembly of the audit file, the internal auditor should not delete or discard internal audit documentation before the end of the retention period.



CHAPTER-II

SCOPE OF INTERNAL AUDIT: EXTENT OF CHECKING

As the coverage of internal audit is vast, all important areas of the Company need to be checked 100%. The extent of check to be exercised in each area has been determined keeping materiality factor in view. The extent of check by Internal Auditors in various area is as under:

Sl. No.	Area of Audit	Extant of Checking
1. Vouching		
(i)	Bank Payment/Receipt & Deposits/Journal Vouchers.	100%
(ii)	Posting in basic Books, General Ledgers and Subsidiary Ledgers.	100%
(iii)	Availability of supporting documents including approval by appropriate Authorities.	100%
(iv)	Proper Accounting entries in Accounting Software used in DFCCIL.	100%
2. Project Accounting.		
(i)	Post Check of Contractor's Bill.	100%
(ii)	Proper adjustment of advances and retention money.	100%
(iii)	Deduction of Interest on Interest bearing Advances.	100%
(iv)	Deduction of WCT, TDS and cess at appropriate rate.	100%
3. Recording and Payment of Purchases/Expenses.		
(i)	Purchase Bills.	100%
(ii)	Sundry Suppliers and Expense Bills.	100%
(iii)	Misc. Supplies and Fixed Assets and other Misc. Bills.	100%
4. Recording of Income.		
(i)	Interest from Bank/FD/CLTD.	100%

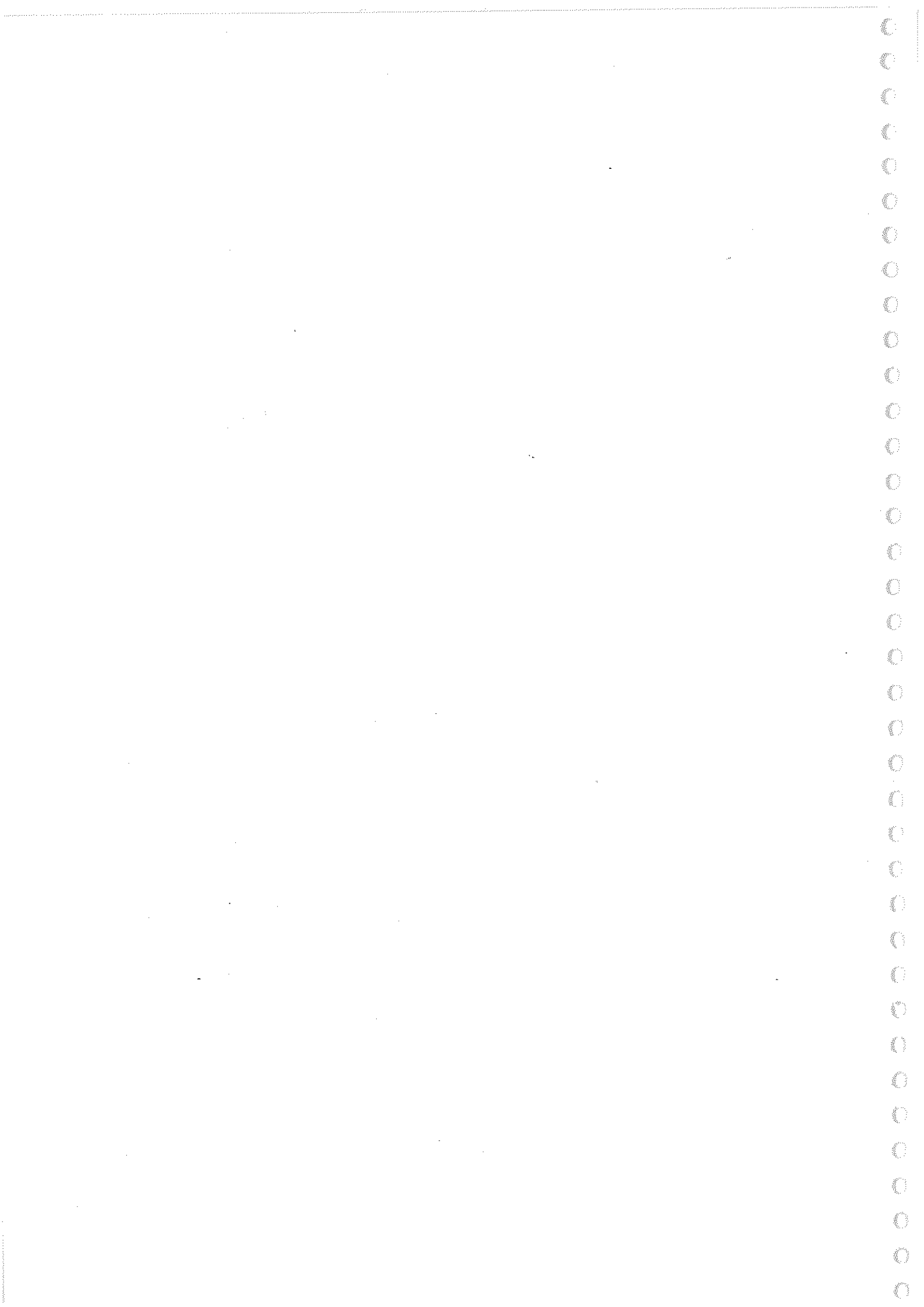


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(ii)	Rental Receipt on Sub lease and Income from Facility Management Services on Sub lease.	100%
(iii)	Misc. other receipts.	100%
5. Establishment Expenses.		
(i)	Post check of monthly Pay Bills.	One month complete checking in two quarters.
(ii)	Disbursement/sanction of advance.	100%
(iii)	Deduction of Tax at source and the deposit of the same with Government.	100%
(iv)	Deduction of PF and other Statutory dues and payment of contributions.	Sample checking to the satisfaction of Internal Auditors
(v)	Payment overtime and other allowance as per rules.	Sample checking to the satisfaction of Internal Auditors
(vi)	Payment of Gratuity and leave encashment.	10%
(vii)	Checking of EL/SL balances of employees and fixation of pay in pay scales.	10%
6. Scrutiny of all sub-ledgers and general ledgers.		for each quarter ending
7. Checking of deduction/collection of taxes under Sales Tax, Income Tax, Service Tax, TDS and issuance of TDS Certificates and filing of returns.		100%
8. Audit of all statutory Registers required to be maintained under Companies Act, Income Tax Act, Sales Tax Act, P. F. and Bonus Acts etc. and to ensure their maintenance and their updation.		100%

9. Checking Bank Reconciliation.		100%
10. Checking Investment decisions.		100%
11. Fixed Assets.		
(i)	Purchase and addition.	100%
(ii)	Verification of profit and loss on sale/buyback.	100%
(iii)	Correctness of accounting g and entry in Fixed Asset register.	100%
(iv)	Verification of calculation of depreciation.	100%
12. Receipts and utilisation of Funds.		100%
13. Physical verification of Cash in Hands, Cheques in Hand.		Quarterly
14. Physical Verification of Stocks.		Once in a year
15. Checking of Bank Reconciliation Statement of all Banks. Highlighting of old outstanding entries in BRS.		100%
16. Balance Sheet/closing of Accounts.		
(i)	Scrutiny/Audit of quarterly and Annual Consolidation of Balance Sheet.	100%
(ii)	Ensuring that all liabilities and provisions have been made in the Books of Accounts.	100%
17.	Calendar of Returns	Quarterly

Note: Items not covered under the above schedule but mentioned in the Programme of Work will be subject to 100% Audit.



CHAPTER – III

INTERNAL CONTROL

3.1 INTRODUCTION

Effective internal controls are the foundation of safe and sound organization. A properly designed and consistently enforced system of operational and financial internal control helps a Board of Directors and management to safeguard resource, produce reliable financial reports and comply with laws and regulations. Effective internal control also reduces the possibility of significant errors and irregularities and assists in their timely detection when they do occur.

Board of directors and senior management cannot delegate their responsibilities for establishing, maintaining and operating an effective system of internal control. The Board must ensure that senior management regularly verifies the integrity of the organization's internal control.

Internal Control Objective

Effective internal control provides reasonable assurance that

- Organization operations are efficient and effective.
- Organization transactions are accurate.
- Organization financial reporting is reliable.
- Organization risk management systems are effective and compliant with the policies.
- The organization complies with DPE guidelines and regulation, internal policies and internal procedures.

Effective control systems can help manager's measure performance, make decision, evaluate processes, and limit risks. Good internal control can help an organization achieve its objectives and avoid surprises. Effective control systems may detect mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions in addition to fraud or deliberate noncompliance with policies. Effective and well-designed control systems are still subject to execution risk. In other words, human beings still must execute most control systems and even well trained personnel with the best of intentions can become distracted, careless, tired or confused.

Internal control must be consistently applied and well understood by staff if board and management policies are to be effectively implemented. Controls typically (1) limit authorities, (2) safeguard access to and use of records and companies assets, (3)

separate and rotate duties and (4) ensure both regular and unscheduled reviews, including testing.

3.2 KEY CONCEPTS OF INTERNAL CONTROL

- **Internal control is a process.** It is a means to an end, not an end in itself. The goal is reliable financial reporting, effective and efficient operations, and compliance with laws and regulations.
- **Internal control is affected by people.** It's not merely policy manuals and forms, but people's actions at every level of the organization.

3.3 COMPONENT OF INTERNAL CONTROL

The formality of any control system will depend largely on an organization, the complexity of its operations, and its risk profile. Less formal and structured internal control systems can be as effective as more formal and structured internal control systems at larger and more complex organization. Every effective control system should have the following:

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical value and competence of the entity's people; management's philosophy and operational style; the way management assigns authority and responsibility, and organizes and develops its people; and attention and direction provided by the Board of Directors.

Objective: determine whether the institution's control environment embodies the principles of strong internal control.

1. Assess the effectiveness of the control environment.
Consider
 - The integrity, ethics and competence of personnel.
 - The organizational structure of the institution.
 - Management's philosophy and operating style.
 - External influences affecting operations and practices.
 - Personnel policies and practices.
 - The attention and direction provided by the board of directors and its committees, especially the audit or risk management committees.

2. Determine whether the board periodically reviews policies and procedures to ensure that proper risk assessment and control processes have been instituted.
3. Determine whether there is an audit or other control system in place to periodically test and monitor compliance with internal control policies/procedures and to report to the board instances of non compliance.
 - Does the board review the qualifications and independence of internal and external auditors?
 - Do auditor's report their findings directly to the board or its audit committee?
 - Does the board take appropriate follow-up action when instances of noncompliance are reported?
 - The company will maintain an appropriate corrective action tracker along with dates for resolution and the names of individuals responsible for resolving the same.
4. Determine whether management provides the board and its representative's complete access to records.
5. Determine whether board decisions are made collectively or whether dominant individuals control those decisions.
6. Determine whether management information systems provide the board information they need to make informed and timely decision.
7. Determine whether the board receives adequate information about the internal risk assessment process.
8. Determine whether the board or management communicates policies regarding the importance of internal control and appropriate conduct to all employees.
9. Determine whether codes of conduct or ethics policies exist.
 - Does audit or other control systems exist to periodically test for compliance with codes of conduct or ethics policies?
 - Does audit or other control system personnel routinely review policies and training regarding ethics or codes of conduct?



Risk Assessment

Risk assessment is the identification, measurement, and analysis of risks, internal and external, controllable and uncontrollable, at individual business level and for the organization as a whole. Management must assess all risks facing the organization because uncontrolled risk-taking can prevent the bank from reaching its objectives or can jeopardize its operations. Effective risk assessments help determine what the risk are, what control are needed, and how they should be managed.

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed.

Objective: determine whether the institution's risk assessment system allows the board and management to plan for and respond to existing and emerging risks in the institution's activities.

1. Determine whether the board and management involve audit personnel or other internal control experts in the risk assessment and risk evaluation process.
2. Determine whether the risk assessment /evaluation process involves sufficient staff members who are competent, knowledgeable and provided with adequate resources.
3. Determine whether the board and management discuss and appropriately evaluate risks and consider control issues during the preplanning stages for new products and activities.
4. Determine whether audit personnel or other internal control experts are involved when the organization is developing new products and activities.
5. Determine whether the board and management consider and appropriately address technology issues.
6. Determine the adequacy of blanket bond or other risk insurance coverage in relation to the risk profile.

Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure the necessary action taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals,



authorizations, verification, reconciliations, and reviews of operating performance, security of assets and segregation of duties.

Objective: Determine whether the board and senior management have established effective control activities in all lines of business.

1. Determine whether policies and procedures exist to ensure that decisions are made with appropriate approvals and authorization for transactions and activities.
2. Determine whether processes exist to ensure that
 - The performance and integrity of each function are independently checked and verified using an appropriate sample of transactions.
 - Accounts are reconciled continually, independently and in a timely manner and those outstanding items, both on- and off-balance-sheet, are resolved and cleared.
 - Policies overrides are minimal and exceptions are reported to management.
 - Employees in sensitive positions or risk-taking activities do not have absolute control over areas. For example,
 - Is there segregation or rotation of duties to ensure that the same employee does not originate a transaction, and process the same ?

A maker checker control should be in place for all transaction the company's systems should ensure that the person generating the transaction should not be allowed to authorize the same.

- Is there periodic unannounced rotation of duties for employees or vacation requirements that ensure their absence for at least a two-week period? The company should have a mandatory leave tracker and on a monthly basis the internal control unit should verify that there were no system login's by people availing mandatory leaves during that period.
- Are safeguards in place for access to and use of sensitive assets and records? The company should ensure that entitlement reviews for rights on the system are conducted on a quarterly basis.
- Is there dual control or joint custody over access to assets (e.g. cash, negotiable, collateral, official checks or consigned items)?

A designation memo for all such assets should be in place and should be updated & reviewed on a quarterly basis.

All system access should be password controlled. The Password should have a specific nomenclature and the systems should as prompt for a change in password on a monthly basis.

3. Determine whether reporting lines within a business or functional area provide sufficient independence of the control function.
 - Is separation of duties emphasized in the organizational structure?
 - A detailed designation memo should be prepared to ensure that there is no maker/ checker slippage.
 - Are systems in place to ensure that personnel abide by separation of duty requirements?
 - Is there supervision and oversight of payments against uncollected funds (potential for kiting)?
 - Is there an internal review of employee accounts and expense reports?
 - Are personnel accountable for the actions they take and the responsibilities/authorities given to them?
4. Determine whether operating practices conflict with established areas of responsibility and control. Examiners should
 - Interview line and management personnel.
 - Review policies delineating responsibilities.
 - Review reconciliations and transaction origination.
 - Review internal audit work papers.
 - Review external audit reports.
5. Determine whether internal audit or other control review functions are sufficiently independent. Consider:
 - Where the function reports, administratively, within the organization.
 - To whom, or to what level, the function reports the results of work performed.
 - Whether practices conform to established standards.



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- Whether management unduly influences the timeliness of risk analysis and control processes.
6. Determine whether the board and senior management has established adequate procedure for ensuring compliance with applicable laws and regulations. Examiners should
- Determine the frequency of testing and reporting for compliance with laws and regulations by reviewing:
 - Audit schedules, scopes, and reports.
 - Minutes of senior management and board committees.
 - The payment of any fines or liabilities arising from litigation against the institution or its employees.
 - Determine whether appropriate attention and follow-up are given to violations of laws and regulations. Consider:
 - The significance and frequency of the violations.
 - The willingness and ability to prevent reoccurrence.

Accounting, Information, and Communication Systems

Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication must also occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders

Objective: Determine whether the institution's accounting, information, and communication systems ensure that risk-taking activities are within policy guidelines and that the systems are adequately tested and reviewed.

1. Assess the adequacy of accounting systems by determining whether

- The systems properly identify, assemble, analyze, classify, record, and report the institution's transactions in accordance with GAAP.
 - The systems account for all assets and liabilities involved in transactions.
2. Assess the adequacy of information systems by determining -
- The type, number, and depth of reports generated for operational, financial, managerial, and compliance-related activities.
 - Whether reports are sufficient to properly run and control the institution.
 - Whether access to information systems is properly restricted.
Whether access to system is appropriately assigned and entitlement reviews are conducted on a regular basis.
3. Assess the adequacy of communication systems by determining whether
- Significant information is imparted throughout the institution (from the top down and from the bottom up in the organizational chain), ensuring that personnel understand:
 - Their roles in the control system.
 - How their activities relate to others.
 - Their accountability for the activities they conduct.
 - Significant information is imparted to external parties such as regulators, shareholders, and customers.
4. Assess how frequently and thoroughly the accounting, information, and communication systems are verified. Consider:
- The frequency of testing given the level of risk and sophistication of the systems.
 - The sufficiency of ongoing reviews of the systems' accuracy.
 - The competency, knowledge, and independence of the personnel doing the testing.
 - The sufficiency of contingency planning.

Self- assessment and Monitoring

Self assessment or monitoring is the organization own oversight of the control system's performance. Self-assessment is evaluations of departmental or operational controls by persons within the area. Ongoing monitoring should be part of the normal course of daily operation and activities. Internal and external audit functions, as part of the monitoring system, may provide independent assessments of the quality and effectiveness of a control system's design and performance. All personnel should share responsibility for self-assessment or monitoring; everyone should understand his or her responsibility to report any breaches of the control system.

Objective: Determine whether senior management and the board properly oversee internal control, control reviews, and audit findings.

1. Determine whether the board or a designated board committee has reviewed management's actions to deal with material control weaknesses and verified that corrective actions are objective and adequate. Consider:
 - Minutes of appropriate board and committee meetings.
 - Audit or other control review reports and follow-up reports.
2. Determine the frequency and comprehensiveness of reports to the board or board committee and senior management:
 - Review the minutes of appropriate board or committee meeting.
 - Determine whether the reports are sufficiently detailed.
 - Determine whether reports are presented in a timely manner to allow for resolution and appropriate action.
3. Determine the adequacy of the board's or board committee's review of audit and other control functions. Consider whether the board or its committee
 - Reviewed the qualifications and independence of personnel evaluating controls (e.g., external auditors, internal auditors, or line managers).
 - Approved the overall scope of control review activities (e.g., audit, loan review, etc).
 - Reviewed the results of control evaluations.
 - Approved the system of internal control.
 - Periodically reviews the adequacy of audit or other control systems.

4. Assess the adequacy and independence of the audit or other control review function. Consider:
 - Results of audit's or other control review function's control evaluation and supporting work papers.
 - The function's organisation structure and reporting lines/
 - The scope and frequency of audits or reviews for all lines of business.
 - Audit or control review reports, management responses, and follow-up.
5. An appropriate corrective action tracker should be maintained along with the dates of resolution and responsibility
6. Determine whether management responses to audit or other control review findings are fully documented and tracked for adequate follow-up. Consider whether
 - Documentation detailing the coverage, findings, and follow-up of control weaknesses is adequate.
 - Management gives appropriate and timely attention to material control weaknesses once identified.
 - Line management is held accountable for unsatisfactorily or ineffectively following up on control weaknesses.

3.4 INTERNAL AUDIT/ INTERNAL CONTROL EVALUATION

Internal Audit

Although internal control and internal audit are closely related, still they are distinct from each other. Internal control is the systems, policies, procedures and processes affected by the board of directors, management and other personnel to safeguard organization assets limit or control risks and achieve organization's objectives. Internal audit provides an objective, independent review of organization activities, internal control, and management information systems to help the board and management monitor and evaluate internal control adequacy and effectiveness.

1. Does the organization have an internal audit or other control review function?
2. Are any internal audit activities outsourced to another party? To whom? How are outsourced arrangements and activities supervised and managed?
3. Describe the internal audit's educational background and experience. Who

- approves the hiring of key internal audit personnel?
4. What other duties does the internal auditor perform?
 5. To whom does the internal auditor report? Who completes the internal auditor's annual evaluation?
 6. Describe the scope and frequency of internal audits.
 7. Does the audit scope include and assessment of risk and internal control? Is compliance with established ethics/conduct policies periodically tested?
 8. Who reviews the internal audit report (department or line manager, senior management, audit committee, board)? How frequent are reports and follow-up reviews? How do you ensure that the board or management is able to understand and act on findings? Who follows up on deficiencies (department or line manager, internal auditor, Audit Committee)? What tests ensure that corrective action has been implemented? Who does the testing?

Internal Control Evaluation

Evaluating internal control involves: (1) identifying the internal control objective relevant to all projects, (2) reviewing pertinent policies, procedures and documentation, (3) discussing controls with appropriate levels of corporation personnel, (4) observing the controls environment, (5) testing transactions as appropriate, (6) sharing, findings, concerns and recommendations with the board of directors and senior management.

In reviewing internal control in a specific area of the corporation. It should identify key control personnel and positions by asking the following questions:

- Is this a critical position? Can a person in this position make a significant error that will result in the inaccurate recording of transaction? Can he or she enter false information or gain control of assets?
- If an error or irregularity occurs, would normal controls promptly disclose it? Would controls prevent or detect significant errors or irregularities?
- Is it possible for a person to conceal an error or irregularity, and is there control in place to minimize this possibility?

The company should ensure there are maker checker controls in place for all financial transactions.

Please include relevant checks for outsourced parties which have been incorporated in the contracts.



Examiners should ensure that employee duties and responsibilities are properly segregated to minimize the possibility of errors and irregularities. For example, in the investment area, the following duties should be strictly segregated: executing securities transactions, approving transactions, accessing securities record keeping, and posting or reconciling related accounting records. Examiners should investigate any activity in which controls do not prevent persons from having both custody and record keeping responsibilities from organization assets and determine whether mitigating factors exist. Segregation of duties can break down when controls do not keep pace with an organization growth and diversification, practices become lax, or personnel use their knowledge or influence to circumvent control.

Before reaching conclusions about a specific area's internal control examiners must consider circumstances that may cause organization employees or officers to take undue risks. The examiners should be especially alert to circumstances in which the personal financial interests of key officers or employees depend directly on the financial condition of the bank. Sound internal control ensures that conflicts of interest are minimized or controlled. Both manifest and potential conflicts of interest should be considered in the overall assessment of internal control.

At the time of conducting internal audit the Internal Auditor should ensure that proper and efficient Internal Control exist in organization for this purpose following Internal Audit Standard should be followed and considered:

Nature, Purpose and Types of Internal Controls

Internal controls are a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met. "Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal audit function constitutes a separate component of internal control with the objective of determining whether other internal controls are well designed and properly operated. Internal control system consists of interrelated components as follows:

- Control (or Operating) environment.
- Risk assessment.
- Control objective setting.

- Event identification.
- Control activities.
- Information and communication.
- Monitoring.
- Risk response.

Internal controls are generally concerned with achieving the following objectives:

- Transactions are executed in accordance with management's general or specific authorization.
- All transactions and other events are promptly recorded in the correct amount, in the appropriate accounts and in the proper accounting period so as to permit preparation of financial statements in accordance with the applicable accounting standards, other recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets.
- Assets and records are safeguarded from unauthorized access, use or disposition.
- Recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.
- Systems and procedures are effective in design and operation.
- Risks are mitigated to a reasonable extent.

Role of the Internal Auditor in Evaluating Internal Controls

The internal auditor's evaluation of internal control involves:

- determining the significance and the sensitivity of the risk for which controls are being assessed;
- assessing the susceptibility to misuse of resources, failure to attain objectives regarding ethics, economy, efficiency and effectiveness, or failure to fulfill accountability obligations, and non-compliance with laws and regulations;
- identifying and understanding the design and operation of relevant controls;
- assessing the adequacy of the control design; and

- reporting on the internal control evaluation and discussing the necessary corrective actions.

The internal auditor should consider the following aspects in the evaluation of internal control system in an entity:

- Ascertaining whether the entity has a mission statement and written goals and objectives.
- Assessing risks at the entity level.
- Assessing risks at the activity (or process)/ Project level.
- Completing a Business Controls worksheet for each significant activity (or process) in each function or department with documentation of the associated controls and their degree of effectiveness (partial or full); prioritizing those activities (or processes) which are most critical to the success of the function or department.
- Ensuring that all risks identified at the entity and function or department level are addressed in the Business Controls worksheet along with the consolidated documentation of the operating controls.
- Ascertaining from the Business Controls worksheet, those risks for which no controls exist or existing controls are inadequate. This process is the stage of 'Controls Gap' analysis.

Segregation of Duties

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. The internal auditor should ensure that in general, the approval function, the accounting/reconciling function, and the asset custody function is separated among employees of the entity. When these functions cannot be separated due to small department size, the internal auditor should ensure that a detailed supervisory review of related activities is in practice, as a compensating control activity. The company would conduct appropriate entitlement reviews to ensure the rights allocated are as the requirements of the function.

While evaluating the information technology controls in a system-driven environment, the internal auditor should determine whether the entity, inter alia, uses:

- encryption tools, protocols, or similar features of software applications that protect confidential or sensitive information from unauthorized individuals;
- back-up and restore features of software applications that reduce

- the risk of permanent loss of data;
- virus protection software; and
- Passwords that restrict user access to networks, data and applications.

Based on the results of the tests of control, the internal auditor should evaluate whether the internal controls are designed and operating as contemplated in the preliminary assessment of control risk.

The internal auditor should consider whether the internal controls were in use throughout the period.

The internal auditor in his report to the management should provide a description of the significant deficiency or material weakness in internal control.

His opinion on the possible effect of such weakness on the entity's control environment.

3.5 BOARD AND MANAGEMENT OVERSIGHT

The hallmark of a positive control environment is a commitment by the board of directors and senior management to strong controls. A board of directors and management are responsible for establishing and maintaining effective internal control that meets statutory and regulatory requirements and responds to changes in the organization environment and conditions. They must ensure that the system operates as intended and is modified appropriately when circumstances dictate. The board and management must make sure that the information system produces pertinent and timely information in a form that enables employees, auditors and examiners to carry out their respective responsibilities.

The board of directors, which oversees the control system in general, approves and reviews the business strategies and policies that govern the system. They are also responsible for understanding risk limits and setting acceptable ones for the organization's major business activities, establishing identifies, measures, monitors, and controls risks and monitors internal control effectiveness. The board should (1) discuss periodically the internal control system's effectiveness with management; (2) review internal control evaluations conducted by management, auditors and examiners in a timely manner; (3) monitor management's actions on auditor and examiner internal control recommendations and concerns; and (4) periodically review the strategy and risk limits.

Senior management oversees operations and provides leadership and direction for the communication and monitoring of control policies, practices and processes. They implement the board's strategies and policies by establishing effective internal control and delegating or allocating control duties and

responsibilities to appropriate personnel. Management is also responsible for performing background checks on staff members before they are hired and ensuring that they are qualified, experienced, trained and compensated to effectively conduct control activities.

Board and management must consider whether a control system's methods, records and procedures are proper in relation to the organizations

- Asset Size.
- Organization and ownership characteristics.
- Business activities.
- Operational complexity.
- Risk profile.
- Legal and regulatory requirements.

CHAPTER - IV

GUIDELINES FOR CONDUCT OF INTERNAL AUDIT

4.1 TENDER/CONTRACT AGREEMENT

Review of Tenders:

Procurement of works/services financed by the World Bank

Internal auditor shall exercise the following:

- a. Check up that all works/Service financed under the loan have been procured in accordance with the World Bank guidelines for procurement 2004, revised October 2006 (Procurement guidelines).
- b. Check up those consulting services to be funded through the bank's loan have been procured in accordance with the World Bank's guidelines for the Selection and Employment of Consultants by the World Bank Consultant, by the World Bank borrowers, 2004, revised October 2006 (Consultancy guidelines).
- c. Check up that all civil works have been awarded using bank's standard bidding documents suitably modified.

International competitive bidding with pre-qualification and two stage bidding

Internal Auditor has to ensure that the following steps have been adopted for International competitive bidding with pre-qualification and two stage bidding:

- a. Publication of General Procurement Notice followed by Specific invitation for bid (IFB) in United Nations Development Business (UNDB) on-line and dg Market publication.
- b. Transmission of IFB to those who have expressed interest in response to the General Procurement Notice.
- c. Publication of IFB in National newspaper having wide circulation in all regions of Country and UNDB/dg Market.
- d. Preparation / Finalization of PQ document based upon standard document of World Bank in consultation with bank. (This procedure is to be adopted if bid is to be given to pre-qualified bidders).
- e. Pre- submission conference with prospective bidders regarding queries on PQ document.



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- f. Clarification of queries/addendum to PQ if required in consultation with World Bank.
- g. Clarification of queries/addendum to be provided to prospective bidders who have purchased PQ document and uploading clarification and addendum on DFCCIL website.
- h. Submission of PQ document by prospective bidders.
- i. Evaluation of PQ document and short listing of bidders in consultation with World Bank.
- j. Preparation/Finalization of bid document in consultation with World Bank.
- k. Sale of bidding document to start only after publication of IFB in UNDB and National newspapers. Bid document to be given to pre-qualified bidders only.
- l. Bidding period not less than 45 days from start of sale of bidding documents.
- m. Pre-bid meeting and issue of pre-bid minutes of the meeting.
- n. Submission of first stage technical bids by the bidders.
- o. Public opening of first stage technical bids.
- p. First stage technical bid evaluation and preparations of MOU with bidders to have technical complaint for second stage bid.
- q. Submission of second stage bids along-with financial bids.
- r. Public opening of second stage bids.
- s. Selection of lowest evaluated responsive bid.
- t. Contract award.
- u. Contract performance.
- v. Award to be published in UNDB on-line/web.
- w. Debriefing of bidders if required.

International competitive bidding without pre-qualification and two stage bidding.

Internal auditor shall ensure:-

- a. To check and report each case for two stages bidding without pre-qualification and non compliance of procedures as listed in previous para above.

International competitive bidding with pre-qualification and single stage bidding

Internal auditor shall ensure:-

- a. To check that for single stage bidding with pre-qualification all procedures as listed in previous para have been followed except second stage bid.
- b. To check that first stage bid with two packet systems will be adopted and first technical proposals have been evaluated based upon the criteria laid down in the bid document.
- c. To check that the public opening of the financial bid of the technically qualified bidders have been done on the date so notified by DFCCIL.

International competitive bidding without pre-qualification and single stage bidding.

Internal auditor shall ensure:-

- a. To check that for single stage bidding without pre-qualification, procedure for pre-qualification has been followed.
- b. To check that both technical and financial offer have been received simultaneously but first technical bid was opened and evaluated based upon the criteria laid down in the bid document.
- c. To check that financial bid to be opened of the technically qualified bidders on date and time to be specified by DFCCIL as public opening.

National Competitive Bidding (NCB)

Internal auditor shall ensure:-

- a. To check that foreign bidders are not precluded from participation.
- b. To check that domestic preference are not given.
- c. To check that Publication of IFB is given in newspapers having wide circulation in the country;
- d. To check that Bidding period 30 days to 60 days from date of start of sale of bidding documents.
- e. To check that Payment is made in local currency.
- f. To check that All NCB contracts financed through World Bank funding will be awarded in accordance with the provisions and guidelines issued by bank.



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- g. To check that Bid document is approved by bid accepting authority in consultation with funding agency.
- h. To check that Invitation to bid shall be advertised in at least one widely circulated national daily newspaper at least 30 days prior to the deadline for the submission of bids.
- i. To check that No special preference will be accorded to any bidder either for price or for other terms and conditions when competing with foreign bidders, state-owned enterprises, small scale enterprises or enterprises from any given state.
- j. To check that except with the prior concurrence of bank there shall be no negotiation of price with the bidders even with the lowest evaluated bidder.
- k. To check that Extension of bid validity shall not be allowed without the prior concurrence of the bank for the first request if it is longer than four weeks and for subsequent request for extension will be considered by bank in cases of force majeure and circumstances beyond the control of the project.
- l. To check that Rejection of lowest evaluated offer and re-bidding will be done with prior concurrence of the bank.

Procurement of works/services financed by the Japan Internal Cooperation Agency (JICA)

- a. Check up that all works/Service financed under the loan have been procured in accordance with the Japan Internal Cooperation Agency (JICA) guidelines for procurement under Japanese Loan Agreement.
- b. Check up those consulting services to be funded through the bank's loan have been procured in accordance with the Japan Internal Cooperation Agency (JICA) guidelines for the Employment of Consultants Japanese Loan Agreement.
- c. Check up that all civil works have been awarded using JICA's standard bidding documents suitably modified.

International competitive bidding with pre-qualification and two stage bidding

Internal Auditor has to ensure that necessary approval /concurrence has been taken for contracts valued beyond specified amount from JICA as required under Loan Agreement.



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International competitive bidding without pre-qualification and two stage bidding.

Internal auditor shall ensure:-

- a. To check and report each case for two stages bidding without pre-qualification and non compliance of procedures.

International competitive bidding with pre-qualification and single stage bidding

Internal auditor shall ensure:-

- a. To check that for single stage bidding with pre-qualification all procedures as listed in previous para have been followed except second stage bid.
- b. To check that first stage bid with two packet systems will be adopted and first technical proposals have been evaluated based upon the criteria laid down in the bid document.
- c. To check that the public opening of the financial bid of the technically qualified bidders have been done on the date so notified by DFCCIL.

International competitive bidding without pre-qualification and single stage bidding.

Internal auditor shall ensure:-

- a. To check that for single stage bidding without pre-qualification, procedure for pre-qualification has been followed.
- b. To check that the proposal has been reviewed and concurred by JICA before opening of bids.
- c. To check that both technical and financial offer have been received simultaneously but first technical bid was opened and evaluated based upon the criteria laid down in the bid document.
- d. To check that financial bid to be opened of the technically qualified bidders on date and time to be specified by DFCCIL as public opening.

National Competitive Bidding (NCB)

Internal auditor shall ensure:-

- a. To check that foreign bidders are not precluded from participation.
- b. To check that domestic preference are not given.

- c. To check that Publication of IFB is given in newspapers having wide circulation in the country;
- d. To check that Bidding period 30 days to 60 days from date of start of sale of bidding documents.
- e. To check that Payment is made in local currency.
- f. To check that All NCB contracts financed through World Bank funding will be awarded in accordance with the provisions and guidelines issued by bank.
- g. To check that Bid document is approved by bid accepting authority in consultation with funding agency.
- h. To check that Invitation to bid shall be advertised in at least one widely circulated national daily newspaper at least 30 days prior to the deadline for the submission of bids.
- i. To check that No special preference will be accorded to any bidder either for price or for other terms and conditions when competing with foreign bidders, state-owned enterprises, small scale enterprises or enterprises from any given state.
- j. To check that except with the prior concurrence of bank there shall be no negotiation of price with the bidders even with the lowest evaluated bidder.
- k. To check that Extension of bid validity shall not be allowed without the prior concurrence of the bank for the first request if it is longer than four weeks and for subsequent request for extension will be considered by bank in cases of force majeure and circumstances beyond the control of the project.
- l. To check that Rejection of lowest evaluated offer and re-bidding will be done with prior concurrence of the bank.

In all cases of procurement "Eligible Nationality" aspect has been taken care of as required in the JICA Loan Agreement.

4.2 HIRING OF CONSULTANTS

Internal auditor has to ensure that following procedure has been complied

- a. Preparation of the Terms of Reference (TOR);
- b. Preparation of Cost Estimate and the Budget;
- c. Approval of Competent Authority as per SOP for invitation of consultancy services;
- d. Request for expression of interest. In case of World Bank/JICA funded project,

necessary approval is taken from the WB/JICA for contract beyond specified value.

- e. Preparation of the shortlist of consultants;
- f. Preparation and issue of the Request for Proposal (RFP) following the Bank's Standard RFP;
 - i) Letter of Invitation (LOI);
 - ii) Information to Consultants (ITC); and
 - iii) Proposed Contract;
- g. Receipt of proposals;
- h. Evaluation of Technical Proposals : consideration of quality;
- i. Evaluation of Financial Proposal;
- j. Combined Technical/Financial evaluation of quality and cost; and
- k. Negotiations and award of the contract to the selected firm.
- l. Publication of award in web and debriefing of unsuccessful consultants.

Auditors to examine and also to ensure all tenders of DFCCIL in general that:-

- a. Examine whether estimates have been properly prepared and approved by Corporate Office and award values compared with the estimates. Ascertain whether reasonableness is established before award of contract.
- b. The tenders have been called and following requisites were observed:
 - i) Wide publicity was given for calling tenders and due notice period was given for submission of offers.
 - ii) Tenders have been invited and received in the prescribed form in sealed cover.
 - iii) All tenders bear the dated Initials of the officers opening them.
 - iv) The rates quoted in the tender have not been over written or changed without attestation by the concerned Tenderer(s).
 - v) The earnest money deposits have been taken.
 - vi) Where earnest money is received in the form of Guarantee Bond and entries are made in the guarantee register.



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- vii) Tender papers have not been sold after the expiry of the last date fixed for selling tender papers.
- viii) The comparative statement have been prepared, checked and certified by the Accounts Officer.
- c. Examine whether all parties selected for tendering hold valid labour license and applicable registration(s) in respect of PF / sales tax / VAT / service tax / work contract tax etc.
- d. Ascertain whether all tendering procedures like requirement of EMD / Bid Security, specifying bid opening time and date, maintenance of tender box, formation of tender committee etc. have been followed in all the cases.
- e. Analyze and comment on the reasonableness of the justification given in single tender cases.
- f. Ascertain whether financial capabilities of tenders have been properly assessed and award of contract made to financially sound and capable parties.
- g. Verify whether the comparative statement which shows evaluation of tenders has been drawn up correctly and deviation taken by tenderer(s), where ever applicable, have been properly loaded for evaluation of bids.
- h. Examine cases where lowest evaluated commercially and technically responsive tenders have been over looked and whether the same are considered reasonable. Internal Auditors will also verify and report on the compliance of G.O. No. 98 / ORD / 1 dated 24.08.2000 issued by the Central Vigilance Commission.
- i. Examine whether delegation of powers (Schedule of Powers) have been followed strictly at the time of administrative approval, calling of tenders, tender committee formation, negotiation, approval of award, finalization of variation etc.
- j. Examine whether tender award has been made by relaxing the qualification criteria necessary for the tender particularly after opening of bids.
- k. Regarding pre qualification of tender the auditors are to check whether approval taken from competent authority after due consideration of the following:
- i) Relevant factors/ parameters were considered while fixing pre qualification criteria namely, financial strengths, experience of work of similar nature, technical requirements etc.
- ii) For consortium bidders, clauses related to financial capability of all the consortium members are clearly specified. Valid legal agreements of consortium members are available.

- iii) Pre qualification criteria are defined in clear and understandable terms.
- l. Examine whether there has been a delay in processing the awards having financial implication to the company.
- m. Examine whether vetting of Letter of Awards /Letter of Acceptance (LOA) has been done in accordance with the DFCCIL guidelines.
- n. Based on the review of the contract the auditors are also to ensure the following:
 - i) Fund for the work is provided in the annual budget /plan. Excess over annual plan, if any, have been analyzed and placed for the appraisal of approving authority.
 - ii) The work/ packages not covered in annual plan, prior approval of competent authority has been taken.
- o. To check that a summary of sale of tender documents are prepared and sent to finance department.
- p. EMDs of unsuccessful bidders are returned in time.
- q. EMDs of successful bidders are adjusted towards security deposit.

4.3 INTERNAL AUDIT OF THE CONTRACT MANAGEMENT

Internal auditor shall exercise the following:

- a. To check that proper records including those for quality, inspection, rejection or acceptance of work are maintained.
- b. To check that the item listed below which require approval of corporate office, CPM has sent the proposal along with detailed justification and his remarks.
 - i) Determine any extension of time for completion.
 - ii) Determining any additional payment claimed by contractor.
 - iii) Giving consent of sub-contractor.
 - iv) Instructions to the contractor to allow appropriate opportunity to other contractor to carry out the work.
 - v) Instructing suspension of the progress of part or the works except in the event that immediate suspension is in the opinion of the Engineer, necessary for protection of life, property or the environment.
 - vi) Giving permission to contractor to proceed after prolonged suspension.

- vii) Issuing of Performance certificate.
 - viii) Instruction or approving variations.
 - ix) Instructing works and/or supplies and/or services to be performed under provisional sums.
 - x) Giving approval of designs submitted by contractor.
 - xi) Making interim/final payments in accordance with contract.
- c. Issuing notice to commence any permanent/temporary work which may affect running line/siding of Indian Railways.
- d. To check that the Engineer is pursuing with the various Central/State departments for requisite clearances so that the progress of work is not impeded and incidence of delay claims by the contractor is avoided.
- e. To check that the work programme has been submitted by contractor within the specified period and has been approved by the Engineer. The programme should show the proposed order of work and dates for commencement and completion of various stages. The programme should include Bar Charts showing proposed month-wise execution of quantities of principal items of work; and Critical Path Method/PERT analysis of various activities from start to completion.
- f. To check that the Work Programme shall:
- i) Set 'Deadlines' or 'Contractual Milestones' to facilitate monitoring of the progress of work.
 - ii) be comprehensive and complete so as to include all activities required under the contract.
 - iii) be properly sequenced and realistic;
 - iv) be based on the resources and equipment deployed and their efficiency;
 - v) be related to the site conditions;
 - vi) be able to show variations of output due to seasons if applicable and;
 - vii) be designed to provide for periodic updating.
- g. To check that the Contractor has provided a general description of the arrangements and methods he proposes to adopt for the execution of the works for approval of Engineer.
- h. To check that this should include environment management plan during



construction stage and other measures during work execution.

- i. To check that the contracts are executed as per the provision in the contract.
- j. To check that in case of any dispute in understanding of contractual clauses, same is discussed amicably and issues are resolved through meetings between contractor and the Engineer. In case the dispute is not resolved between the contractor and the Engineer, the same is dealt as per the contractual provisions.
- k. To check that the Engineer reviews the progress of the works being executed as per the milestones/ completion date mentioned in the contract agreement.
- l. To check that in case the progress is not as per the milestones, Engineer analysis and take corrective action and advise the contractor to take appropriate steps to make up the delays and achieve the targets. The Engineer also visits the work sites and takes stock of the progress of the work.
- m. To check that the payments to contractor are made after verifying that all the documents as per contractually required are submitted.

4.4 PAYMENT TO CONTRACTORS FOR WORKS

Auditors to examine and ensure that -

- a. Where projects are being supervised by the Project Management Consultants, the competent authority to record the measurements and to test check the measurements etc. shall be as indicated in the Contract Agreements with the consultants.
- b. Payments to contractor are made as per the guidelines laid down in the Works Manual.
- c. The quantities as claimed in BOQ (Bill of quantity) are verified & checked by site engineer .
- d. Necessary deductions towards materials, mobilization advance and retention money is effected from the bills.
- e. In case of interest bearing advances, recoveries for interest are also made from the bills.
- f. Where pattern of bill preparation includes BOQ on cumulative basis the quantities certified in the immediately preceding bill for which payment has been made are tallied & payments is made for net addition of quantities.
- g. The quantities shown and claimed in the bill are recorded in Measurement Book and signed by the responsible officer.

- h. The quantities are carried over correctly from one page to another and whenever deduction has been made, the quantities are reduced correspondingly.
- i. The rate claimed in the bill at which quantities are multiplied is as per work order/contracts. The reasons for part payment should be given and it should be ensured that full payment is not paid for incomplete work.
- j. Bills are prepared without any delay after the measurements have been taken recorded and certified.
- k. Only agreed materials are issued to contractor free of cost and tight control is exercised over use of such materials to prevent any leakage/pilferage.
- l. Recoveries of hire charges for material & equipment supplied to Contractors are made from the bill, under other terms specified in the agreement
- m. Physical progress of the work is compared with schedule of progress envisaged in the contract and where the progress has been slow; Project Manager has taken suitable action.
- n. The award of contract is on the basis of tender and as per the delegation of powers, approved by competent authority.
- o. Calculation such a totals of quantities, rates and arithmetical accuracy is checked,
- p. The escalation claims should be examined in depth with reference to relevant claim agreement with sub-contractor.
- q. That guarantee given by sub-contractor against mobilization advance, performance of works & retention money are in force or if it is likely to expire, action has been taken 3 months in advance to get it extended. The details of guarantee obtained from contractor are entered in the Guarantee Received register.
- r. That the original guarantee has been kept separately in sub- contractor file and is in the safe custody of responsible officer.
- s. Separate subsidiary account is kept in the Register of Sub-contractors as per the enclosed format and note is made of the following:
 - i) Amount of Advance given to Contractor
 - ii) Details of recoveries thereof
 - iii) Details of bills prepared by contractor
 - iv) Value of Contract.
- t. For release of ad-hoc payment against bill, the auditors are to verify the following:

- i) Bills have been received for ad-hoc payment from the contractor as per terms and conditions of the contract.
- ii) Maximum amount allowed in the agreement for ad-hoc payments are not exceeded after adjustment of previous ad-hoc payment, if any.
- iii) The total ad-hoc payment recommended is within the limit laid down in the contract.
- u. See that security deposit is released only after the Project In charge furnished a certificate that no recovery, outstanding against the contractor and after the maintenance period of work is over or as per condition of contract.
- v. Security / Guarantee are physically verified periodically & this fact is recorded in the register of securities
- w. Declaration is obtained from sub-contractor that he has complied with- various rules & laws such as minimum payment of wages, contribution to P.F. etc. for the lab our engaged by him for DFCCIL works
- x. Indemnity has been obtained from the sub-contractor stating that in the event of any liability developing on DFCCIL for sub-contractor's failure in complying with the statutory laws/performance of any obligation which otherwise would have been responsibility of sub-contractor.

Purchase orders

The following points should be checked:

- a. That complete description, specification and time schedule of materials are enumerated in purchase order
- b. That quantity ordered & rate for each item are specified both in words &, figures.
- c. That Purchase Orders are signed by competent authority as per delegation of power and are entered in purchase register maintained for Materials/Stores.
- d. That manner of advance payment is indicated wherever applicable.
- e. That amendment in purchase order are duly authorized and approved by authority, which approved original purchase proposal
- f. That in respect of imported purchases all requisite formalities such as foreign exchange sanction, procurement of import license, if applicable, have been done.

That responsibility for insurance is clearly demarcated & written in purchase order as well the place of destination of supply of goods.

Receipt of Materials

- a. Whether copy of Purchase Order is passed on to the concerned office/indent and consignee to enable him to watch receipt of material, and find out discrepancies, if any.
- b. Whether materials are inspected in terms of quantity, quality, specifications mentioned in purchase order and differences are pointed out to Stores Officer.
- c. Check Receipt Challans issued by Stores Department particularly at the year end to cross check whether liability for materials, if not paid in advance, is passed in the accounts.
- d. See that payment of bill is made by Accounts Department on receipt of bill accompanied by Receipt Challans, Technical Certificate and bill is duly signed by Technical Supervisor.
- e. If the materials are supplied directly to contractor, whether certificate is obtained as evidence of receipt of material stating description & quantity and the same is compared with purchase order
- f. Whether claim with issuance authority have been lodged wherever shortage were noticed?

4.5 PAYMENT FOR PURCHASE OF STORES & MATERIALS

- a. Check up that Suppliers Master has been created with full particulars correctly.
- b. Check up that purchase procedure are followed as laid down by DFCCIL for various items such as steel, rails, cement, P. Way, fitting etc.
- c. Whether the procurement of material is on receipt of indent/request from user forward department?
- d. See that purchase order is issued by the competent authority and enter the register of purchase order maintained for material/stores (other than the Capital Assets).
- e. Check up quotation received from different parties before purchase of materials and comparative statement prepared before award of purchased contract.
- f. In case the contract is awarded to any party whose bid is not lowest, see the justification forward of contract and that reason are recorded in writing.
- g. Also check up delegation of powers of DFCCIL in respect of stores material to ascertain the limits for award of contract on Single Tender, Limited Tender & open tender basis.

- h. Check up that financial Concurrence exists in respect of purchase proposal with particular attention to the following:
- i) The tender enquiry gives all the necessary details
 - ii) The mode of purchase is in accordance with customary practice
 - iii) The quotations are opened in the presence of representatives of firms and are signed by the officers who opened the tender.
 - iv) All quotations received in time are incorporated in the Comparative statement of tenders correctly and in case the quotations of different parties are not comparable due to difference in the unit of quantity or freight element the same is brought as uniform level for the purpose of comparison.
 - v) All other important points such as taxes, delivery conditions etc have been incorporated in the comparative statement and a competent officer signs the statement.
 - vi) The quotations are complete in respect of specification of materials, price, delivery etc.
 - vii) The proposal is made for the lowest acceptable offer and in cases when it is proposed to accept an offer other than the lowest, reason is recorded for ignoring the lowest offer and the same are justifiable. In case negotiation has been carried out the same have been done after approval of competent authority and in consultation with finance and record of negotiations at various stages duly signed by participant has been kept. Purchases are made after approval by the competent authority.
- i. The justification for purchase of asset has been recorded in writing,
- j. Where no quotation of other parties has been obtained, approval has been obtained from competent authority for placing order on a particular supplier.
- k. Purchase order is signed by authorized officer & duly entered in the register to be maintained as per the format.
- l. Advance payment is released as per terms of agreement with the supplier. Once the Material is received and commissioned as per terms of agreement the advance paid should be debited to final head of allocation by credit to Advance account.
- m. Performance guarantee as stipulated, is obtained from the supplier before release of payment
- n. If the assets are machines & require installation & commissioning, the certificate of installation & commissioning is obtained in writing before release



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of payment.

- o. Proper bill is given by the supplier & bill is duly verified by the concerned officer in charge.
- p. Complete particulars of assets such as Mark No., Company/Suppliers name, date of purchase, DFCCIL's No. (As is allocated to asset) is recorded in the register of Fixed Assets.
- q. All the incidental expenses in connection with the purchase of the Asset such as Initial Transportation Charges, one-time Taxes, Transportation Insurance, Commissioning & Installation Charges, etc. should be capitalized.
- r. As per the Corporate Policy items of capital nature procured on additional/replacement account costing up to Rs. 1 lakh should be charged to Revenue A separate register should be maintained to record such purchases.
- s. Necessary endorsement bearing DFCCIL name is made conspicuously visible on the asset.
- t. Orders placed on the supplier but delivery not effected as on 31st March are extracted from Purchase Order register maintained for capital assets as this is required to be disclosed by notice to the annual "Capital Commitments entered into by the Corporation". Similarly letters of credit for purchase of capital asset will also be recorded in P.O. Register & Figure is taken for capital commitments.
- u. In case of self-built assets, costs incurred are allowed by capitalizing certain expenses, which have bearing in relation to asset.
- v. In case of capital work in progress, whether transfer are made to Capital Assets once the asset is treated complete & put to commercial.
- w. The date on which, assets are put to use is kept in records for calculation of depreciation.

Issue of Materials

- a. Whether materials are issued only on requisition signed by senior officer of user department/engineer in charge of site?
- b. Materials issued to contractors are properly recorded and control is exercised to prevent loss of materials,
- c. Whether unused material is returned to store department.
- d. Whether separate record is kept after material given on loan/or for justification and certificate is obtained?

- e. Inventory is taken on 31st March for materials lying at site, but not consumed.

4.6 ESTABLISHMENT EXPENSES

Pay & Allowances

For Regular employees and Deputationists

- a. Basic salary and computation of allowances with reference to appointment letter/terms of deputation of few cases.
- b. That statutory deduction such as Provident Fund, Income Tax, etc has been correctly made. Where new pension scheme (NPS) is applicable, pension contribution is correctly made.
- c. That contractual deduction viz. House Building/Vehicles advances dues of Society/contribution if any have been recovered and if required to be remitted to parent department, whether needful has been done.
- d. Whether Income Tax deducted from the salaries of the employees has been timely deposited with the Government (within 7 days of the close of the month for which salaries have been paid).
- e. That professional tax has been deducted from the pay bills of employees & amount has been deposited with the respective local authority of the State.
- f. That declaration of employees (in the enclosed format) for Income & Investments is obtained twice a year once in the beginning of financial year say May & once in Jan.
- g. That entry in financial books is passed by debiting gross amount of salaries computed to "Salaries" account and crediting the amount of recoveries to respective account such, as Advances, Income Tax Payable (employees), and net amount payable to "Salary Payable" account.
- h. That payment subsequently made towards Salaries are made by debiting to 'salary Payable' Account.
- i. Income Tax (TDS payable) deductions are remitted to Government of India by debiting "Tax Payable (Employees) Account".
- j. That Salary Payable Account is scrutinized by Accounts Department about monthly rates and employees wise break up of salary payable (remaining unpaid) is worked out and entered in the unpaid salaries payable
- k. The copy of last pay certificate of the previous office is attached to the first pay bill of the month. That last pay certificate issued to transferring office giving complete details such as salary & allowance paid up to last month of transfer. Tax deducted, Advances outstanding of various nature vehicle, festival, Travel

Advance etc, reliving order, order no. of transfer and date.

- l. That leaves salary encashment paid to employee, if paid during service is as per rules and is added to Income of employee while making tax computation.
- m. Check up that Leave Salary Encashment is made for Pay, Dearness Allowance.
- n. Annual return in Form No 24 as contained in income Tax Rules filed by 30 April giving details of the previous financial year.
- o. An increment letter is attached when an increment is drawn.
- p. Whether Provident Fund deducted (and also employer's contribution to PF wherever applicable) has been timely deposited with DFCCIL Trust/remitted to parent department.
- q. Check up that amount in respect of employees for whom Provident Fund is contributed by corporation, family pension, fund is also contributed if scheme is made applicable.
- r. Also see that Family Pension Fund deducted from the employee is ensured that the amount of contribution along with an employee portion is deposited with Provident Fund Commissioner.
- s. Please see that journal voucher for adjusting advance/recoveries/Tax at source is prepared on passing the bill for disbursement of payment as the case may be.
- t. Test check pay fixation.
- u. List of salary advances outstanding more than six months.
- v. Test check salary with personal file.
- w. Examine whether house rent is being deducted in respect of lease accommodation provided by the company.

Full & Final Settlements

- a. Check up that settlement dues (apart from salaries) such as Leave Salary & Gratuity are computed as per rules of corporation.
- b. All recoveries towards advance outstanding, equipment or articles/asset held by employee in official capacity are made from settlement dues.
- c. Necessary advice is sent to Provident Fund Trustee for release of Provident Fund amount standing to the credit of employee's account.

Casual Employees/Daily Rated Work Force

- a. Appointment/reappointment of casual employees/daily rated work force is with the approval of competent authority.
- b. Attendance is recorded by the employees in attendance register.
- c. Payment is made by cashier in the presence of site engineer/supervisor controlling the employee.
- d. Signature/left thumb impression (LTT) is obtained on pay sheet on the revenue stamp affixed on pay sheet.
- e. The attendance records are checked at periodic intervals by responsible officer of the site location and these are no interpolations in the attendance recorded.
- f. The payment made to labour is charged to head "Labour Charges!" and not to "Salaries".
- g. Payment to labour is not made for work, which has been sub-contracted to the party.
- h. Pay Sheet/Muster roll is signed by disbursing incumbent as well as by the officer controlling the labour.
- i. Where the labour is engaged for completing the work left over by sub-contractor, it should be ensured that cost is debited to sub-contractor's account.
- j. Declaration in regard to compliance with various labour laws should be obtained from sub-contractor for the labour employed by him.

Travelling Allowance

Traveling bills should be seen and following points to be ensured that:

- a. The tour is approved by Competent Authority as well as advance amount, if any, by employee.
- b. The bills are submitted within 7 days of return from journey.
- c. The claims for conveyance are made as per the mode of transport laid down in TA rules.
- d. Where journey has been undertaken by Air by an employee who is otherwise not entitled to, approval is accorded by M.D.
- e. The claim for lodging & boarding are within the limit permissible.
- f. Where the company provides the ticket, the cost of ticket is debited to employees advance account and adjustment of advance is made once bill is

submitted and amount of ticket is written in the column of company.

- g. The necessary supporting vouchers/bills and used air ticket along with boarding pass has been attached with the bill (Please note that travelling bill of air lines/travel agents as evidence for ticket docs not suffice).
- h. Foreign travel has been approved by CMD/MD or in his absence, Director Finance.
- i. Foreign exchange has been drawn in accordance with limits fixed by RBI, utilization report has been given by officer concerned after completion of journey & unutilized foreign exchange has been surrendered within 7 days of return to India.
- j. Amount of unspent advance is deposited back against issue of cash/money receipt.

Medical Expenses

- a. Check up that reimbursement of medical expenses is as per DFCCIL Medical Attendance Rule as amended from time to time.
- b. Claims are lodged for consultation fees as per limits lay down and reimbursement of medicines is as per doctor's prescription.
- c. See that claim made by employee for himself & dependents as declared by him at the time of joining.

Retirement Benefits

The internal Auditor should ensure.

- a. The retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the employer for a year has been charged to the statement of profit and loss for the year. Thus, besides the amount of contribution paid, a shortfall of the amount of contribution paid compared to the amount payable for the year should also be charged to the statement of profit and loss for the year. On the other hand, if contribution paid is in excess of the amount payable for the year, the excess should be treated as a pre-payment.
- b. In respect of gratuity benefit and other defined benefit-schemes, the accounting treatment will depend on the type of arrangement, which the employer has chosen to make,
 - (i) If the employer has chosen to make payment for retirement benefits out of his own funds, an appropriate charge to the statement of profit and loss for the year should be made through a provision for liability on accrual basis, to be



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calculated according to actuarial valuation. However, those enterprises which employ only a few persons may calculate the accrued liability by reference to any other rational method e.g. a method based on the assumption that such benefits are payable to all employees at the end of the accounting year

- (ii) The financial statements should disclose the method by which retirements benefit costs for the period have been determined. In case the costs related to gratuity and other defined benefit schemes are based on an actuarial valuation, the financial statements should also disclose whether the actuarial valuation was made at the ends of the period or at an earlier date. In the latter case, the date of the actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly described, if the same is not based on the report of the actuary.

4.7 TRANSACTION AUDIT

Cash Payments

DFCCIL is not having any transaction in hard cash except imprest cash maintained by imprest holder.

Cheque Payments/Payment through NEFT/RTGS

Please ensure that;

- a. Proper bank payment voucher (in the prescribed format) is prepared along with the Cheque.
- b. Cheque books are kept in the safe custody of responsible officer & under proper lock & key.
- c. Cheque is prepared if the
 - i. Payment is approved by authorized officer of Accounts department.
 - ii. Proper supporting bills duly verified by the officer (in terms of Authority matrix) are made available.
- d. Cheques kept ready but not collected/handed over are also kept in safe custody,
- e. Cheque payments are invariably made "Account Payee".
- f. Acknowledgement is obtained from the party in case the Cheque is personally handed over.
- g. Acknowledgement & official receipt for delivery of cheques to party is insisted to be sent to the Corporation for records,



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- h. Supporting /Bills on the basis of which Cheque is released should be defaced with "Paid"* stamp to be affixed in the center to avoid re-presentation of these bills.
- i. The payment made is debited to proper head of account with the credit to relevant bank account of which Cheque has been issued.
- j. Cheques which have not been encashed (to be found from Bank Reconciliation statement) and have expired after their validity date are reversed by debiting to concerned Bank Account from which cheque was issued and credited to 'Unclaimed Cheques.
- k. Loss of Cheque book is promptly advised to the bank.
- l. Indemnity bond is obtained from the party where duplicate cheque is issued in lieu of lost cheque reported by the party (Duplicate cheque should be issued only at rare occasions & decision to be taken very cautiously Prompt instruction for stop payment should be lodged with the bank and acknowledgement from bank should be obtained on the office copy).
- m. The cheques are signed by authorized signatories only.
- n. In case of payment through NEFT/RTGS, EFT/Cheque requisition register as required in Accounting Manual (in Form 6.2.1) is maintained and proper reconciliation is done.

Regarding receipt of cheques the Auditors to examine that:

- a. Pre-numbered stamped receipt is issued stating the cheque number, drawer bank & amount of cheque.
- b. Bank receipt voucher entry is passed debiting the bank account in which the cheque received is deposited with the credit to the concerned head of account.
- c. Bank deposit slips duly bound are properly kept.
- d. Continuous monitoring is done to find out whether cheques deposited are credited by the bank to the company account and do not get dishonored.
- e. The dishonored cheques are collected from bank & party is contacted (in no case, dishonored cheques for want of fund should be returned to party as this would be necessary to be produced if legal proceedings are to be taken up against the party under "Negotiable Instruments Act" for non-payment of cheque)
- f. Whether the reversed entry as per (2) above is made in books of account.
- g. Post-dated cheques received are kept in the cash box.



- h. A Register is maintained for unclaimed cheques (as per format enclosed) and any cheques which are issued at a later date on receipt of request from party are debited to Unclaimed Cheques Account'.
- i. The total of unclaimed amount of all cheques put together should tally with General Ledger Balance, which should be matched every month.
- j. Once fresh cheque is issued, the entry should be struck off from the register & details should be filled in.

Bank Debits/Credits

Auditors to check whether:

- a. The Bank debits (debits are made on account of interest, incidental charges, charges on demand draft, commission on bank guarantee) are recorded by debiting respective head of expenditure (bank charges/commission) and credited to bank account and also to ensure charges levied by the Bank are nominal /reasonable.
- b. Entry for debit of interest is passed after verification of rate of interest & Calculation.
- c. Credits on account of interest received are properly recorded in the books of account by debiting bank account and crediting interest account/Interest Accrued account as the case may be.

4.8 BANK RECONCILIATION

It should be ensured that:

- a. Bank Statements are promptly collected by Accounts Department.
- b. Bank reconciliation for all accounts is prepared at monthly intervals.
- c. Outstanding entries (unmatched entries in bank book & bank statement) are analyzed & adjustment entries passed in the books of account.
- d. Entries remaining unmatched for which no adjustment is passed are taken up with the bank (particularly debits made by bank) for rectification.

4.9 TRANSFER OF CAPITAL ASSETS

It should be ensured that:

- a. Transfer of assets from one place to another is made after the approval of authority & DGM & /GM in Finance & accounts department is informed.
- b. Complete details of assets being transferred such as Original Cost, cumulative depreciation & rate of depreciation are intimated to transferee location.



- c. Whether these changes are duly stuck off in the fixed asset register as far as change of location is concerned.
- d. Depreciation for the entire year is charged in the accounts by transferee location regardless of the period for which asset is utilized by receiving Unit.

4.10 SALE/DISCARDING/DISMANTLING OF ASSETS

It should be ensured that:

- a. The assets are sold only as per approval of competent authority and the sale of assets is properly recorded by crediting to asset account with the book value appearing in financial records and excess/shortage over realized value is credited / debited to profit/loss on sale of assets account (Refer enclosed statement to be filled up for sales/discarding of assets).
- b. Discarding of assets is recommended by engineer & approval of Competent Authority is taken.
- c. The particular recorded in the fixed assets register for these assets are cancelled defaced / stuck off.

4.11 RECOGNITION & VALUATION CRITERIA

It should be ensured that:

- a. The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to deferred credit or to borrowed funds attributable to construction or acquisition of fixed assets for the period up to the completion of construction or acquisition of fixed assets should also be included in the gross book value of the asset to which they relate. However, the Financing costs (including interest) on fixed assets purchased on a deferred credit basis or on monies borrowed for construction or acquisition of fixed assets should not be capitalized to the extent that such costs relate to periods after such assets are ready to be put to use.
- b. The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.
- c. When a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. For these purposes fair market value may be determined by reference either to the



asset given up or to the asset acquired, whichever is more clearly evident. Fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident.

- d. Subsequent expenditures related to an item of fixed asset should be added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.
- e. Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realizable value and shown separately in the financial statements.
- f. Fixed asset should be eliminated from the financial statements on disposal or
- g. When no further benefit is expected from its use and disposal,
- h. Losses arising from the retirement or gains or losses arising from disposal of fixed asset, which is carried at cost, should be recognized in the profit and loss statement.

It should be ensured that the following information are disclosed in the financial statements:

- (i) Gross and net book values of fixed assets at the beginning and ends of an accounting period showing additions, disposals, acquisitions and other movements.
- (ii) Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- (iii) Revalued amounts substituted for historical costs of fixed assets, the methods adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valued was involved, in case where fixed assets are stated at revalued amounts.

4.12 DEPRECIATION ACCOUNTING

- a. The internal auditor should ensure that following information has been disclosed in the financial statements a long with the disclosure of other accounting policies:
 - i) Depreciation methods used; and
 - ii) Depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

4.13 ADVANCES & DEPOSITS FOR CAPITAL WORK

It should be ensured that:

- a. The required guarantee, if laid down, have been obtained before release of advances
- b. If various types of advances have been given such as mobilization advance. Material advance, machinery advance, have the amount paid been debited to separate accounts (This is considered desirable as at any point of time outstanding advances can be worked out).
- c. The tax at source has been deducted from advance payments released for works (no tax is required to be deducted from advance payments given for supply of material/machinery where no job work is involved)
- d. If tax has not been deducted, the declaration from the contractor or Income tax exemption certificate is kept on record
- e. The advances are recovered/repaid as per terms of agreement
- f. If advances are given for purchase of material /machinery, die supply of the same has been made as per time schedule laid down.
- g. The financial entries in the books of account at the time of recovery of Advances have been correctly passed, (It should be ensured that recover) of advance given for particular purpose say mobilization/material advance is credited to that particular account only at the time of recovery).
- h. Tax deducted from advance payments is deposited with Government by Scheduled date due for deposit? (Refer for more details Statutory Obligations).
- i. Certificate has been issued to the party for tax deduction in prescribed format, Form No 16A as contained in Income Tax Rules.
- j. Where advances are given for supply of machinery or for performance of any obligation, the required supply has been made & installation & commissioning has taken place for machinery or the obligation has been completed
- k. If the advance given is interest bearing, the interest has been deducted to/recovered from the party.

4.14 ADVANCES TO OFFICERS & STAFF

It should be ensured that:

- a. Whether requisition for advance has been sanctioned/approved by



controlling officer / incharge.

- b. Whether the previous advance taken by the employee has been cleared? If not, this has been brought to the notice of concerned of Officer/Incharge.
- c. If the amount(s) advanced to any employee remains unadjusted for long time has this been brought to the notice of sanctioning authority/Corporate Office by monthly report as per prescribed format.
- d. Have the balances in General Ledger in account of "Advances to Employee" been reconciled with subsidiary ledger balances.
- e. If the advance is given for official purpose whether bills are submitted promptly.
- f. That inter unit debit advice is sent to transfer location for all pending advances/claims recoverable.
- g. Please check up that there is no case of advance given to casual/daily rated employees except with the prior approval of Chief Project Manager and such advances are adjusted within a fortnight.
- h. If advance is taken by the employee from the unit/office other than at which he is posted, the debit advice is sent by disbursing unit to the unit of his posting to ensure its adjustment & Accounts.
- i. Monthly report in the prescribed format is sent to Corporate Office for outstanding advances for more than 3 months.
- j. Non-recoverable advances, if any, are identified & put up for write off.
- k. At present DFCCIL does not grant advance for purchase of New House/Vehicle or for house building. The below checks should be exercised in case advances are granted in future.
- l. In case of advance against house building/purchase of new house
 - i) The relative title deeds have been taken, by DFCCIL
 - ii) It has been ensured that property is free from encumbrances
 - iii) Legal advisor's validity certificate & valuation report has been obtained.
 - iv) The interest on accrued basis is debited to Interest Recoverable Account,

Where vehicle advances have been given

It should be ensured that:

- a. Are the recoveries as stipulated being made from salary?
- b. Is interest worked out and debited to account of employee?
- c. Is comprehensive insurance cover of vehicle in currency and name of the party and DFCCIL Railway's interest is recorded in the policy?
- d. Has necessary endorsement been made in the Registration book of value indicating lien of DFCCIL on the vehicle?

4.15 SECURITY DEPOSITS GIVEN BY DFCCIL

Deposits for Accommodation / Telephone Works.

It should be ensured that:

- a. Whether the receipts of deposits are kept in safe custody of responsible officer and available for verification? (These should not be attached with the vouchers and kept in separate file).
- b. Whether the due date on which deposits are to be claimed back has been noted in diary and claim for refund is lodged on due date?
- c. Whether a separate register is maintained for security deposits with details such as Date & amount of deposit, name of authority with whom deposit has been kept, mode of payment viz Cheque/DD no., receipt no. issued for deposit, date on which refundable.
- d. If the deposit is not refundable for one or other reason, whether adjustment entry has been passed in the books of account with the approval of competent authority,
- e. Whether deposits have been made pursuant to agreement provision.
- f. When deposits are adjustable against revenue expenditure, whether financial entries are being passed in books of account by booking to revenue expenditure & crediting deposit account? (This would be applicable in case of rental agreements).
- g. Whether deposits for telephone security of OYT are charged directly to expenditure?
- h. If the deposits are interest bearing, the amount of interest has been taken as credit for interest income?

Interest Accrued

It should be ensured that:

- a. Whether calculation of interest accrued has been correctly made on Fixed/Term deposits taking into account rate of interest applicable and period up to which interest gets accrued up to 31st March?
- b. Whether accrued interest has been accounted for by crediting the income to "Interest Account" and debiting to "Interest Accrued Account"?
- c. Whether the entry passed in (2) also is reversed in next year at the time of realization of interest?
- d. If tax has been deducted out of interest by the payer, whether the certificate of tax so deducted has been obtained in original and kept in safe custody for attaching with return of Income for claiming refund?
- e. Whether the figure of tax deducted at source has been debited in financial books for classification into Loans & Advances?
- f. Whether the Journal voucher for recording Tax deducted at Source in financial books is simultaneously passed at the time of receipt of interest?

4.16 REVENUE RECOGNITION

The internal Auditor should ensure that the Revenue from sales transactions have been recognised only when:

- i) The property in the goods gets transferred to the buyer for a price or
- ii) All significant risks and rewards of ownership are transferred to the buyer and
- iii) The seller retains no effective control of the goods transferred to a degree usually associated with ownership.
- iv) No significant uncertainty exists regarding the amount of consideration that will be derived from such sale.

4.17 FIXED DEPSOITS-TERM DEPOSITS

It should be ensured that:

- a. Whether the Corporation is authorized to keep fixed deposits and whether the same has been kept with authorized banks/agencies?
- b. Whether Fixed Deposit receipt has been kept in safe custody of Officer responsible for it?

- c. Whether certificate is obtained from bank stating amount of Fixed Deposit and interest accrued thereon up to 31st March?
- d. Check up that deposit receipt have been sent back at due date for realization of amount and due date diary is maintained for monitoring these.

4.18 CLAIMS LODGED

It should be ensured that:

- a. Whether the claims, wherever necessary, have been lodged with Railway's Insurance, authorities for short supply of goods or damages to vehicle, track, rolling stock, etc.
- b. Detailed claim wise register for all types of claims are maintained with adequate follow up of the major claim.
- c. The amount of claim lodged has been correctly worked out and has been duly accounted for in finance books.
- d. Doubtful claims are identified and written off with required approval.
- e. Adjustment is made for short realized claim in books of account unless there is further possibility of recovery,
- f. Review of old outstanding claims is carried out at periodic intervals.

4.19 GUARANTEE RECEIVED BY DFCCIL

It should be ensured that:

- a. Whether the formats on which guarantees are taken are approved before hand by competent authority?
- b. Check up that all details are entered in the guarantee receipt register maintained by DFCCIL.
- c. Whether the register is scrutinized at frequent intervals to identify guarantees likely to expire?
- d. The original guarantees are kept in the safe custody of office in charge.
- e. The guarantee released by DFCCIL is struck off from the register & date of discharge is stated in Remarks Column.



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4.20. PROVISION FOR LIABILITIES

Contractors/ Suppliers

It should be ensured that:

- a. Purchase order register & Goods received note (for material only) particulars entered at the year-end to identify the cases where materials have been received but payment has not been made.
- b. Provision for liability has been made by debiting to concerned expenditure account and credit to parties account passed on the bill value deducting there from the advance payments/ on account payments made earlier.
- c. Provision has been made for payment of residual amount by crediting to parties account and capitalizing the particular assets account if possession of same asset has been taken.
- d. The provision made on estimated basis for outstanding liability if the bill has not been received.

Outstanding Liabilities for Expenditure

The auditor should verify that:

- a. Outstanding liabilities are booked in the accounts for the period up to 31st March for various expenses such as Telephone, Electricity Bill, Salaries, Travelling Expenses etc.
- b. Payment of expenses in subsequent year pertaining to previous year is debited to outstanding liabilities.
- c. Details of expenses of different heads are extracted which aggregate to total outstanding liabilities appearing in General Ledger.
- d. Credit balance lying in outstanding liabilities for any item of expenditure/provisions is written back by debit to outstanding liabilities for expenses with corresponding credit to respective head of account where liability was over booked on estimated basis.

Interest Payable/Interest Accrued but not due on Loan

- a. Check the terms & conditions on which loan has been raised viz. rate of interest, periodicity of interest payment, security given.
- b. Calculation of interest on loan amount and provision of interest accrued up to 31st March.
- c. Whether tax has been deducted at source in pursuance of Sec. 193 & 194 A of



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the Income Tax Act and deposited with the Government?

4.21 LOANS RAISED BY DFCCIL

It should be ensured that:

- a. Records of loans raised from TRFC/other bodies are maintained by keeping separate account for each loan in general ledger.
- b. Whether register of loans raised is maintained and particulars of installment have been noted up to date account as per prescribed format?
- c. Whether journal vouchers are passed on due dates for making provision, of interest.
- d. Whether tax have deducted at the time of making provision or payment of installment whichever is earlier and deposited with Government of India
- e. That loans raised are within the borrowing powers permitted in terms of Sec 293 (1) (d) & 370 (I) of Companies Act 1956.
- f. That permission has been obtained from General Body Meeting of shareholders for mortgaging and / or creating charges on the properties of company,
- g. Charges created and/modified are registered with the Registrar of Companies in Form No 8 & 13 prescribed under Companies Act 1956,
- h. The particulars of charges created are entered in prescribed Statutory register by secretarial Department.

Borrowing Costs

It should be ensured that whether borrowing cost include:

- a. Interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- b. Amortization of discounts or premiums relating to borrowings;
- c. Amortization of ancillary costs incurred in connection with the arrangement of borrowings;
- d. Finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
- e. Exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost



- f. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalized should be determined in accordance with statement. Other borrowing costs should be recognized as an expense in the period in which they are incurred.
- g. Borrowing costs are capitalized as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

4.22 EARNEST MONEY/SECURITY DEPOSITS RECEIVED BY DFCCIL

- a. The Earnest Money is received from parties/contractors in terms of offer/tender documents floated by DFCCIL.
- b. Details of Earnest Money/Security Deposit received are kept in the prescribed register,
- c. The request for refund of earnest money originates from department floating & finalizing the tender. No direct request is entertained. Also check up that refund of security deposit is advised by the functional department head responsible for getting work done.
- d. That in the event of any party winning the contract, the earnest money given is converted into security deposit and financial entry is passed accordingly in the books of account.

4.23 TAX IS DEDUCTED AT SOURCE AT THE TIME OF:

- a. Release of advances such as Mobilization & Material advances (unless the advance is exclusively for supply of machinery/material).
- b. Payment of net bill amount after recovery of advance (Tax to be deducted on net amount as tax would have already been deducted at the time of disbursement of advances).

4.24 FINANCIAL MANAGEMENT ARRANGEMENTS

Project Financial Management Structure:

- a. To check that the responsibility for overall project FM arrangements will rest with GGM (Finance) at HQ level.
- b. To check that at the field level, Deputy Chief Project Finance Managers (Finance) [DCPFM (F)]/Project Manager (Finance) [PM (F)] are maintaining construction expenditure and relevant contractor/supplier's accounts for the funded project.

- c. To check that the construction expenditure and relevant contractor/suppliers' accounts for the funded project are being maintained by GGM(Finance) capturing the expenditure, liabilities and payments, necessary accounts for IBRD loan are maintained by Assistant Manager/Manager (Finance)/Banking.
- d. To check that once the repayment of the loan/interest starts the necessary accounting entries will be passed by Manager/Manager (Finance)/Repayment.
- e. To check that these entire field accounting units are preparing monthly trial balance separately the summary of transactions relating to the project which will be consolidated at HQ.
- f. To check that the consolidated position of the funded project are being reviewed by GGM (Finance),
- g. To check that reports are being submitted on timely basis.

Bank Accounts:

- a. To check that separate bank account is opened for receipt of IBRD funds.
- b. To check that the monthly bank reconciliation statements are being prepared for all project bank accounts.
- c. To check that the balance reported in periodic reports to the World Bank are supported by the bank statements.

4.25 BUDGETARY CONTROL:

- a. To check that along with the entity budget, DFCCIL has prepared annual project budget based on work plan.
- b. To check that actual project performance (both physical and financial) is monitored on quarterly basis with analysis of variances and proposed corrective action where appropriate.
- c. To check that this is being submitted as a part of the quarterly reporting package to the Board and shared with the Bank.
- d. To check that, requisitions for funds are being prepared by the project and incorporated in the Interim Unaudited Financial Reports, IUFR based on budgets and cash requirements forecasts.

4.26 ACCOUNTING OF PROJECT COST:

- a. To check that there are separate accounting heads for all financial transactions for the aided projects.
- b. To check that there are detailed sub-ledger heads of accounts for each

package/component under the project.

- c. To check that progress tracking and regular reconciliation are carried out between the main general ledger heads and the sub-ledger heads.
- d. To check that Copies of final contracts and amendments are maintained at Project FM units as well as at HQ.
- e. To check that all contractual payments are being made after due verification of the bills in accordance with the procedures laid down for processing of bills for both technical and financial approvals and the delegation of powers.
- f. To check that the independent Project Management Consultant (PMC) has verified the achievement of the contractual milestones and issued necessary certification.

The procedures for bills submission and processing will be as follows:

- g. To check that the project contractor is submitting the bills as per contractual provisions pertaining to advance/milestone payments to GGM (Finance) DFCCIL/HQ, New Delhi.
- h. To check that the bills are scrutinized in the technical section concerned for measurement and recording of work execution with reference to milestone.
- i. To check that the certification from the independent PMC has been obtained and checked for observations and if clear, the bills, PMC certificate and related documents will be sent to Unit FM.
- j. To check that the GGM(Finance) DFCCIL/HQ, New Delhi has undertaken the detailed scrutiny of the bills, checking arithmetic accuracy, commercial scrutiny and statutory dues with reference to contractual terms and conditions, measurement books, statutory requirements and supporting documents/PMC certificate and will pass the bills for payment. This procedure of payment at Corporate Office will continue till field offices are satisfactorily strengthened. Various payments to the contractors will be finally approved by GGM (Finance) DFCCIL/HQ, New Delhi.
- k. To check that the bills are being preferred by Contractor/Consultants to QA Consultants who will perform and record 100% test check before forwarding the bills to CPM at Project Office. 80% of billed amount will be paid in GGM (Finance) at Corporate Office within 2 days on certification of CPM. Balance 20% of above retained bill will be paid within 7 days after detailed check by APM, PM, CPM etc by GGM (Finance) at corporate Office.
- l. To check that all project expenditures has been recorded in the books of DFCCIL in accordance with its accounting policies and procedures in designated general ledger and sub-ledger accounts.

- m. To check that the accounting system is generating separate periodic and annual project financial statements.

4.27 FUND FLOW ARRANGEMENTS:

- a. To check that DFCCIL is submitting withdrawal requests in the agreed IUFR format and has obtained appropriate Bank Task Team clearances prior to submitting disbursement claims to CAAA.
- b. To check that prior payments to contractors/ consultants out of counterpart funding has been claimed to the bank for reimbursement of the bank funding.
- c. To check that in case of direct payment by the Bank, DFCCIL has submitted a formal request to the Bank along with copies of authorized bills and other relevant supporting documents including certificate issued by the independent AQ consultant.
- d. To check that accounting for the disbursement of direct payment to the contractor/supplier/consultant by the Bank has been done as per notice of the bank.

4.28 FINANCIAL REPORTING

- a. To check that the project has prepared and forwarded quarterly/half yearly (as agreed during negotiations) interim unaudited financial reports (IUFRs) to the Bank in the prescribed format.
- b. To check that the financial data has been taken from the accounting records of DFCCIL and reconciled.
- c. To check that there is appropriate project monitoring systems (software package) for the purpose of generating periodic physical vs equivalent financial progress reports.
- d. To check that the project has prepared quarterly budget performance reports (actual performance compared to budget with variance analysis) as part of its entity level reporting.

4.29 BOOK OF ACCOUNTS:

Internal Auditor should ensure that the company is maintaining the proper books of accounts as required by various laws and for better internal control in the organization. He should also help the management to frame the policies in case of any deviation in the policy or in case of non maintenance of the policy. In particular followings books of accounts are to be checked:

1. Cash Book,



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2. Bank Book,
3. Journal,
4. General Ledger,
5. Medical expenses Reimbursement Register,
6. Employees Advance Register,
7. Travel Advance,
8. Vehicle Advance,
9. House Building Advance,
10. Other Advance
 - i) Unclaimed/Un-encashed Cheque Register,
 - ii) Sub-Contractor Register,
 - iii) Guarantee Register (Received by Corporation),
 - iv) Guarantee Issue Register (Given by Corporation),
 - v) Leave Travel Concession Register,
 - vi) Purchase Order Register (For Capital Purchase),
 - vii) Purchase Order Register (For Stores/Materials),
 - viii) Letter of Credit Issue Register,
 - ix) Fixed Assets Register,
 - x) Earnest Money Register,
 - xi) Security Deposit Receipt Register,
 - xii) Security Deposit (Amount Paid by Corporation),
 - xiii) Material Issued to Sub-Contractor Register

4.30 INTER UNIT TRANSACTIONS

It should be ensured that:

- a. Are the inter-unit reconciled quarterly and statement of account sent

monthly? Inter Unit transactions can be on account of.

- i. Cost of Air tickets, hotel charges etc for employees incurred by the accounting unit than the one on which the employee is on pay roll.
 - ii. Advances drawn by the employee from the other unit while on tour
 - iii. Transfer of funds from one unit to another.
 - iv. Collection money/payment of money from/to parties by the accounting unit other than the one where such party account is appearing (Normally such payments should be avoided),
 - v. Any other receipt/payment of money pertaining to other accounting unit.
 - vi. Transfer of fixed assets and stocks from one accounting Unit.
 - vii. The purchase of various materials for use at Units but the payment is arranged at Corporate Office.
- b. The inter-unit transactions are properly intimated to the concerned unit and/confirmation of the unit is received from its corresponding accounting unit.

The following points should be seen by Internal Auditor:

4.31 INVESTMENT

In case of Investment:

- a. Whether the Investment of Short-term surplus funds has the approval of the Investment Committee.
- b. Whether proper Power of Attorney has been given for operation of the Bank Account to the Officers of the Finance Department.
- c. Whether the details of Investment made and the return received on the same is put up for information of DGM, DF & MD at periodical intervals.
- d. That there are no errors in calculation of interest
- e. Whether the Books section has obtained TDS Certificate so that no Tax is deducted at the time of receipt of interest from any investment made by the corporation.
- f. Whether the guidelines given by Department of Public Enterprises has been followed while making investments/opening of a bank account.

4.32 RAISING OF RESOURCES

In case of Raising of resources it should be seen that

- a. The resolution for raising the funds has been passed by the Board of Directors.
- b. A letter has been obtained from Auditors/ Bankers/ Arrangers/ Registrar/ Compliance Officer, etc stating their willingness to be appointed as Auditors/ Bankers/Arrangers/Registrar/Compliance Officer for the said issue.
- c. The Railway Board has approved the issue and Letter of Comfort/Govt. guarantee, if any, has been obtained from the Ministry of Railways for the above issue (it is also to be ensured that the liability on account of Govt guarantee is also provided for in the accounts).
- d. The credit rating has been obtained for the above issue.
- e. The Terms of the Present Issue and the Particulars of the Issue are clearly spelt out in the Prospectus/Information Memorandum.
- f. The debt is within the approved Debt-Equity ratio after the current issue.
- g. The management fees payable to Issuers is fixed in advance.
- h. The approval and willingness from the trustee has been obtained for the current issue.

4.33 GENERAL FUNCTIONS

It should be seen whether the following General Functions of the Secretarial Department are duly performed:

- a. In case of meetings - whether the Agenda for the Board Meeting/General Meeting has been dispatched to the Directors or Members well in advance.
- b. Whether the Board Meetings are held as per the stipulations in the Companies Act (i.e. four meetings during the year or one every three months)
- c. The meetings of the various Committees (consisting of the Directors) such as Audit committee, Investment Committee, etc is held as per requirement.
- d. Whether the minutes of the Board/General meeting are duly entered in the minute register and are signed by the Chairman of the meeting within the stipulated time limit.
- e. The Annual Returns u/s 159 of the Companies Act is filed within 60 days of the AGM with the Registrar of Companies.



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- f. The various registers are maintained as per the formats laid down in the Companies Act - the following registers are required to be maintained in the Secretarial Department
- i) Register of Members
 - ii) Register of Directors
 - iii) Register of Debenture holders
 - iv) Register of Charges
 - v) Register of Loans & Investments
 - vi) Register of Transfer/Transmission
 - vii) Register of Nomination.

4.34 CONTINGENCIES AND EVENT OCCURRING AFTER THE BALANCE SHEET DATE

- a. Ensured that any contingency that would eventually lead to a loss or an impairment of an asset and the amount of such loss can be reasonably estimated has been provided for.
- b. Contingent losses should be disclosed in the financial statements if the above criteria are not met.
- c. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact in the current profit or loss can be perceived.

4.35 ACCOUNTING FOR CONSTRUCTION CONTRACTS

Auditors to check that disclosures made in the financial statements of:

- i) The amount of construction work-in-progress.
- ii) Progress payments received and advances and retentions of contracts included in construction work-in-progress.
- iii) The amount receivable in respect of income accrued under cost-plus contracts not included in construction work-in-progress.

4.36 ACCOUNTING FOR GOVERNMENT GRANTS

Auditors to check that:

- a. Government grants are recognised only if grants are received.

- b. Govt. grants for specific depreciable fixed assets are presented in two ways:
- Either it is shown as a deduction from the value of fixed assets or shown under reserves and surpluses and treated as deferred income over the useful life of the asset.
 - Grants received for non depreciable assets are shown under the head capital reserve.

4.37 GENERAL REVIEW

General reviews to be carried by the Auditors on:

- Review and check of Lease Agreements, if any
- Review and check of Salary Records.
- Review and check of transport contracts.
- Reconcile various Assets Account (Cash, Bank, Advances and other Current Assets).
- Review the expenses incurred and apportionment and accounting.
- Review of contracts entered into with various parties and to ensure that the payments are made in accordance with the contract and that the penalty is levied as per the terms agreed into.
- Review of purchase files relating to capital equipment and other materials
- Audit of all cash and bank payments
- Audit of journal vouchers
- Audit of all purchase vouchers
- Check of postings in general ledger and other related records wherever applicable review of all purchase orders
- Review of all claims receivable, analysis, and age wise details
- Physical verification of fixed assets
- Checking monthly Accounts
- Audit of Salary, TA and other benefits to employees
- Compliance audit of procedures
- Compliance with various statutory laws like Sales tax, Income tax and other

laws

- r. Review of income tax deduction and their remittances
- s. Checking of leave records
- t. Checking of Vehicle Log books and consumption of fuel
- u. Checking of Bank Reconciliation and other Reconciliation Statements
- v. Review of adequacy of Internal control and Internal check procedures
- w. Review of Budgetary Controls Systems
- x. Review of purchase systems
- y. Review of financial follow up, security and vigilance
- z. Review of implementation of suggestions
- aa. Review of Insurance
- bb. Review of advance paid to suppliers and others
- cc. Review of timely recovery of advances
- dd. Review of Delegation of Powers
- ee. Review and check of Welfare Expenses
- ff. Review of Independent Auditor/ Statutory Auditors Report on expenses incurred by DFCCIL on loans funded by World Bank / JICA.



ANNEXURE-I

To
DGM/Accounts,
Corporate Office,
New Delhi.

Dear Sir,

REG. PHYSICAL VERIFICATION OF FIXED ASSETS

In terms of letter NoMr.....& Mr..... were authorized to conduct Physical verification of Fixed Assets. The details of verification are enclosed for your records. It is submitted that.

1. All the assets mentioned in the details were physically controlled/verified.
2. All assets are in good condition (except otherwise specified in the report) and are the property of the Corporation.
3. Further they are not subject to any change or lien of any kind.

Signature

Project In charge

Encl: Working Sheets of Physical verification.



To

DGM/Accounts,
Corporate Office,
New Delhi.

Dear Sir,

REG: PHYSICAL VERIFICATION OF STORES/MATERIALS

In terms of office letter No.....dtShri.....was authorized to undertake physical verification of materials & stores The verification have since been conducted and reports/details of verification are enclosed

With respect to above verification, it is stated that

1. All quantities were determined by actual contractor weight or measurement as on (date of physical verification) except the following (if any)
2. All the materials are the property of the Corporation and are not subject to any change/lien of any third party.
3. During physical verification due consideration has been given to the condition of the stock and no obsolete/insensible or damaged items were included therein.

Signature

Project In charge

End: Working Sheets of Physical Verification

