

RAJASTHAN FINANCIAL CORPORATION
(A&I Section)

PG - 1194

Udyog Bhawan
Tilak Marg
JAIPUR 302 005

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PROCEDURE & GUIDELINES

REG: INTERNAL AUDIT & INSPECTION

System of internal audit of the affairs of the Corporation is already in vogue. Now, looking to the size of business and nature of activities of the Corporation, the Internal Audit System needs to be strengthened further.

Keeping this object in view, the following decisions have recently been taken :-

1. A new zone namely "Western Zone, Jodhpur" has been created and an officer of the rank Dy.General Manager has been posted as Dy.General Manager (A&I), WZ, Jodhpur. Now there are three Zones i.e. Eastern Zone at Head Office, Central Zone at Ajmer and Western Zone at Jodhpur.
2. Apart from Branches, sections of HO have also been brought under the ambit of internal audit.

The object of Internal Audit is to ensure compliance of Procedure/ Circulars & guidelines issued from Head Office. The object can be met with by giving due attention to the observations of the Audit. It has been noted that due attention to this aspect has not been given, which put all efforts, taken in this regard, in vain. Therefore, it is enjoined upon all Branches and the Section Heads at HO that as soon as the internal audit reports are received, action for compliance of the same should be taken and conveyed immediately. Remedial measures should also be taken by the concerned so as to ensure that the observations are not repeated in the next Internal Audit Report.

In super session of earlier procedure and guidelines, the new guidelines have been formulated and are enclosed herewith for taking necessary action and compliance. All concerned are advised to comply with the above guidelines. Lapses will be viewed seriously.


(B.N.SHARMA)

Chairman & Managing Director

Encl.: as above

Copy to -

1. All Field Offices.
2. Standard Circulation at HO.

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INTERNAL AUDIT & INSPECTION

1. OBJECTIVE & FUNCTIONS:

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

Note:

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

2. SCOPE OF WORK:

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

Following, inter-alia, areas should be looked into by the team while conducting the audit:-

LOANS:

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

FINANCE:

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

PERSONNEL & ADMINISTRATION

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

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ACCOUNTS:-

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

LAW:

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

Follow up & Recovery

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

GAD

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

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GENERAL:

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

NOTE:-

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

3. AUDIT PROGRAMME/ TEAM'S

- 3.1 With a view to have effective and regular Internal Audit/Inspection and follow-up thereof, three Zones headed by DGM (A&I) have been created to carry out regular Internal Audit and Inspection of the Branches and different Wings in Head Office.
- 3.2 The programme of Internal Audit for the Branches and the different Wings of Head Office would be scheduled by the DGM(A&I) of the concerned Zone and would be conveyed in advance to the respective field office after obtaining formal approval of audit programme from GM(A&I)/CMD. DGM (A&I) would be free to make appropriate modification/adjustment in the audit programme of the Branches under his Zone depending upon the exigencies/convenience. However, it should be ensured that as far as possible, reasonable advance notice is sent to the concerned office intimating the programme of Internal Audit (In case of inspection it will not be necessary to intimate the programme of inspection in advance).

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

- 3.3 The DGM (A&I) would depute a reasonable number of officers/staff (not less than two persons) depending upon the strength/status and area of operation of the office to be audited. The duration of the audit would also be decided accordingly.
- 3.4 On concluding the audit, DGM (A&I) should himself visit office, as far as possible, to finalize audit para as drawn by the audit team, after discussions with the In-charge of the office, and also to see the position of outstanding paras of earlier reports.

4. **ACTION TO BE TAKEN BY THE OFFICE TO BE AUDITED**

The Branch / Section Head at HO is expected to follow the following guidelines with regard to audit:

- i) To nominate an officer to co-ordinate with the team including timely providing of record.
- ii) The audit team is free to access all the papers, documents and files, registers etc. maintained in the Branch.
- iii) Provide all possible facilities/help to the internal audit team so that audit work is completed within the time.

5. **ISSUE OF REPORT:**

- 5.1 After completion of the Internal Audit the audit report should be finalized as early as possible (generally within 7 days of the completion of audit) and should be issued to the concerned Branch Office after obtaining its approval from GM(A&I)/CMD.
- 5.2 A note highlighting the important shortcomings/deficiencies observed during audit should be put up to CMD for information.

6. **FOLLOW-UP ACTION ON AUDIT REPORTS:**

- 6.1 The very objective of the Internal Audit stand defeated if timely follow-up action is not taken. Therefore, as soon as the audit reports are issued, the In-charge of the office under audit is required to initiate action on the comments/observations made in audit reports with a view to regularize the irregularities and send necessary clarifications.

- 6.2 Audit and Inspection Report and subsequent communication thereof should be treated as important communication and received accordingly for monitoring purposes by the In-charge of the office so that these reports do not escape attention.
- 6.3 The nominated officer should be made responsible to open a separate file for each report for timely compliance. He is also responsible to get compliance from the concerned official and forward it to concerned Zonal Office of A&I after obtaining approval.
- 6.4 The In charge of the concerned Cell should deal all the observations on respective files from where the irregularity/observation has emanated and initiate necessary follow-up action and obtain approval of the Branch Manager on the action/comments so finalized by him. The comments should be passed on to Dy. Manager/Asstt. Manager (A/cs) for sending consolidated report to DGM (A&I). The officer looking after the Accounts work should ensure that the Accounts are modified/corrected as required by Audit, if it is found that the observation/contention of the audit is correct.
- 6.5 If rectification of any error or regularization of any irregularity requires approval of competent authority, it will be the responsibility of the Head of the unit/Section to approach the appropriate authority for getting necessary approval.
- 6.6 In case follow-up of any observation by Internal audit/Inspection necessitates seeking explanation/clarification from an officer who has since been transferred at some other place it would be the responsibility of the present Head of the unit under audit to seek such clarification from the officer by making written reference at his present place of posting under intimation to Internal Audit.
- 6.7 A copy of audit para along with the compliance/comments on the respective para should be kept in the concerned file with appropriate note on the note-sheet if any further action is to be taken in compliance of the observation of Internal Audit.
- 6.8 A consolidated reply should be sent to concern DGM (A&I) under the signature of the In-charge of the office audited.
- 6.9 It should be ensured that comments/reply are finalized within 15 days (not exceeding 30 days in any case) on receipt of audit report/communication from DGM(A&I).
- 6.10 It is not always necessary that in compliance of audit report, follow-up action should be taken in the matter suggested by audit report. If it is a matter of interpretation and the office has different views then the views they suggested in audit, the in charge of office can send his view points/comments for further examination/guidance in the matter. The same is the case in the matter of verification of facts. However, if the

officer agrees with the facts/suggestions in the report the compliance should be sent without delay.

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

7. NON-COMPLIANCE

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

8. INSPECTION

- 8.1 Apart from regular internal audit, the Audit & Inspection wing has also been assigned the task of carrying out inspections of the Branches. These inspections should generally be carried out by an officer not below the rank of DGM, of course for special/detailed investigations; some other officer can be deputed for this task. The basic aim of this inspection would be to ascertain whether the various operating functions are in accordance with the laid down procedures and policies and are implemented effectively and timely to achieve the desired objectives. The inspection would also include conducting investigations in certain specified areas as may be desired by the CMD.
- 8.2 It would not always be necessary to send the programme of inspection in advance. Programme of inspection would be finalized by the Inspecting officer after obtaining approval of next higher authority. During Inspections it would be obligatory on the part of the In-charge of the unit to be inspected to furnish relevant information and documents available in the office as may be desired by the Inspecting Officer and provide necessary help in conducting the inspection and

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arrange visit of industrial units or any other establishment, if so felt necessary by the Inspecting Officer.

- 8.3 As far as possible, the Inspecting officer conducting inspection/investigation would refrain from passing on any instruction/order on a particular case/issue. However, if in the opinion of the Inspecting Officer, it is essential to safeguard the interest of the Corporation and any delay may jeopardize the interest of the Corporation, he can give a note to Head of the unit with his observations and advise which would be treated as an order, if the Inspecting Officer happens to be in the rank/cadre higher than the in charge of the unit under inspection. A copy of such a note should also be sent by him to the concerned administrative section in Head Office and GM (A&I)/CMD for review/taking further necessary action.
- 8.4 The Inspecting Officer should submit his inspection report immediately (within a week) on completion of inspection to GM (A&I)/CMD for taking further action.
- 8.5 After approval of GM(A&I)/CMD, the abstract of relevant portion of inspection report should be sent to the Head of the unit inspected for taking up follow up action. The follow up action on the inspection report should be taken up in the same manner as prescribed for follow up of Internal Audit Report.
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