

RFC/ P&G/ 1472

**RAJASTHAN FINANCIAL CORPORATION**  
( HO, A&I Section)

Udyog Bhawan  
Tilak Marg  
JAIPUR 302 005

Ref.No.RFC/A&I/Gen/7/Cir./ 777

Dated : 24.11.2014  
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**PROCEDURE & GUIDELINES**

**REG: GUIDELINES OF INTERNAL AUDIT & INSPECTION**

Detailed guidelines in regard to the different parameters to be considered for conducting internal audit and also the modalities to be followed have been issued vide PG circular no. 1194 dated 10<sup>th</sup> Sept. 2007. These guidelines have been revised and have been made more elaborate and are enclosed as Annexure 'A'.

It has been observed that there is no uniformity in the format of the Internal Audit Reports that are prepared by the audit teams. Therefore, the format has been standardized and is enclosed at Annexure "B". Henceforth, all audit reports are required to be furnished in the format prescribed herein. The format is not exhaustive. If the audit teams feel that more information is required to be added, it should be incorporated in the report.

All concerned are advised to take a note of these guidelines and ensure its compliance.

  
(Maneesh Chauhan)  
Managing Director

Copy to –

- 1 Standard Circulation at HO.
- 2 All Branches / SO's
- 3 DGM ( A&I), EZ, CZ, WZ.

Annexure "A"INTERNAL AUDIT & INSPECTION1. 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.
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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) Extraordinary Delay in disposal of Loan Applications
- ii) Violation of rules in appraisal of all loan application whether closed or sanctioned

**FINANCE:**

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

**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.
- [Handwritten signature]*

- iii) There is a proper system of man power planning, development and utilization.
- iv) To ensure that personal files & Service Books of the employees are completed in all respect.

#### ACCOUNTS:

- i) The books of account and Registers are properly maintained, checked, authenticated and balanced periodically and all transactions are properly accounted for.
- ii) Cash, securities and other valuables, as per books, exist physically and the arrangements for their custody are adequate.
- iii) To carry out 100% audit of documentation and accounts particularly with reference to rate of interest & penal interest repayment schedule etc. and irregularities may be brought into the notice by making para alongwith pointing it in forwarding letter.
- 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/ closed during the audited 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) To check that all the legal formalities are fully complied with for execution of loan documents.
- ii) Documents obtained from borrowers are complete and enforceable and advances are adequately secured.
- iii) Whether any undue delay is occurred in 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 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, write off cases and other NPA cases.
- iv) To examine all the cases filed Under Section 32-G. Decreeal cases, BIFR Cases and only when serious lapses are noticed then be brought in the Report.
- 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 ECS 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.
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**GENERAL:**

- i) To ensure that action for weeding out the record has been taken by the branch office.
- ii) To ensure whether action for weeding out is being taken as per norms.

**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. Before finalizing report, discussion be held with the Head of the BO/Section Head, if no reasons be mentioned. 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. For example, para on Status of Recovery, 32(G) Cases. Decretal cases etc should be incorporated in Part-I of the Inspection Report.

**3. AUDIT PROGRAMME**

- 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.
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- 6.2 Audit and Inspection Report and subsequent communication thereof should be treated as important communication and recorded 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 concerned 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).
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- 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.

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- 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 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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Annexure "B"

**RAJASTHAN FINANCIAL CORPORATION  
AUDIT AND INSPECTION \_\_\_\_\_ Zone**

**Audit Report**

**Name of the Branch** :

**Period** :

**Date of Audit** :

**Audit Team** :

**PART- I**

**1. OFFICIALS POSTED DURING THE PERIOD OF AUDIT**

**BRANCH MANAGER**

| S.No. | Name | Designation | Period |
|-------|------|-------------|--------|
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |

**DY.MANAGER**

| S.No. | Name | Designation | Period |
|-------|------|-------------|--------|
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |

**ASSTT. MANAGER**

| S.No. | Name | Designation | Period |
|-------|------|-------------|--------|
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |

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| S.No. | Name | Designation | Period |
|-------|------|-------------|--------|
|       |      |             |        |
|       |      |             |        |
|       |      |             |        |

**2. Achievement in Key Areas of Operation**  
( From 1.04.\_\_\_\_\_ to 31.03.\_\_\_\_\_. )

| KEY AREAS    | TARGET        |              | ACHIEVEMENT   |              | Percentage OF ACHIEVEMENT |
|--------------|---------------|--------------|---------------|--------------|---------------------------|
|              | Previous Year | Current Year | Previous Year | Current Year |                           |
| Sanction     |               |              |               |              |                           |
| Disbursement |               |              |               |              |                           |
| Recovery     |               |              |               |              |                           |

### 3. CASH

(Including comments on cash position, Fidelity Bond and Transit Insurance)

#### 4. POSITION OF OUTSTANDING PARAS OF EARLIER AUDIT REPORTS

[illegible]

| AG Audit       |             |               |  |
|----------------|-------------|---------------|--|
| Name of Branch |             |               |  |
| S.No,          | AGIR Period | Pending Paras |  |
|                |             |               |  |
|                |             |               |  |
|                |             |               |  |
|                |             |               |  |
|                |             |               |  |

**5 5.1 Units in Possession ( As on \_\_\_\_\_ ).**

| S.No. | Name of the unit | Date of Possession | Position of Accounts |       |    |       |
|-------|------------------|--------------------|----------------------|-------|----|-------|
|       |                  |                    | Prin.                | Intt. | OM | Total |
|       |                  |                    |                      |       |    |       |
|       |                  |                    |                      |       |    |       |
|       |                  |                    |                      |       |    |       |

**5.2 Issue of Legal Notice u/s 30**

| S.No. | Name of the unit | Date of Issue of L/N | Position of Accounts |       |    |       |
|-------|------------------|----------------------|----------------------|-------|----|-------|
|       |                  |                      | Prin                 | Intt. | OM | Total |
|       |                  |                      |                      |       |    |       |
|       |                  |                      |                      |       |    |       |

**5.3 Deficit Cases**

| S.No. | Name of the Unit | Date of Sale | Sale consideration | Deficit |
|-------|------------------|--------------|--------------------|---------|
|       |                  |              |                    |         |

**5.4 Decreed Cases**

| S.No. | Name of the Unit | Date of Decree | Amount of Decree |
|-------|------------------|----------------|------------------|
|       |                  |                |                  |

### 5.5 Write off Cases

| S.No. | Name of the Unit | Amount    |            |
|-------|------------------|-----------|------------|
|       |                  | Write off | Write Back |

### 5.6 Claims lodged u/s 32 (g)

| S.No. | Name of the Unit | Date of ROD filed | Account Position |       |    |       |
|-------|------------------|-------------------|------------------|-------|----|-------|
|       |                  |                   | Prin.            | Intt. | OM | Total |

### 5.7 Court Cases

| S.No. | Name of the Unit | Date of Filing case | Name of the Court | Nature of the case |
|-------|------------------|---------------------|-------------------|--------------------|
|       |                  |                     |                   |                    |

### 5.8 BIFR / AAIFR Cases

| S.No. | Name of the Unit | Name of the Court |
|-------|------------------|-------------------|
|       |                  |                   |

### 5.9 SARFAESI Cases

| S.No. | Name of the Unit | Date of Possession | Account Position |       |    |       |
|-------|------------------|--------------------|------------------|-------|----|-------|
|       |                  |                    | Prin.            | Intt. | OM | Total |

### 5.10 FIRs Lodged Cases

| S.No. | Name of the Unit | Date of FIR Lodged |
|-------|------------------|--------------------|
|       |                  |                    |

### 5.11 Cases filed u/s 138(b)

| S.No. | Name of the Unit | Cheque No. | Date of Cheque | Amt. of cheque | Date of filing the case |
|-------|------------------|------------|----------------|----------------|-------------------------|
|       |                  |            |                |                |                         |

6.

**6.1 Sundry Deposit**

| S.No. | Name | Date | Amount |
|-------|------|------|--------|
|       |      |      |        |
|       |      |      |        |
|       |      |      |        |

**6.2 Suspense Account**

| S.No. | Name | Date | Amount |
|-------|------|------|--------|
|       |      |      |        |
|       |      |      |        |

**6.3 Mortgager's Suspense Account**

| S.No. | Name | Date | Amount |
|-------|------|------|--------|
|       |      |      |        |
|       |      |      |        |

**6.4 Earnest Money Account**

| S.No. | Name | Date | Amount |
|-------|------|------|--------|
|       |      |      |        |
|       |      |      |        |

**6.5 Initial Deposit Account**

| S.No. | Name | Date | Amount |
|-------|------|------|--------|
|       |      |      |        |
|       |      |      |        |

**6.6 Petty Balances of loan accounts**

| S.No. | Account No. | Name of the Unit | Balance available |
|-------|-------------|------------------|-------------------|
|       |             |                  |                   |
|       |             |                  |                   |

## PART-II

We have checked and carried out the work of Internal Audit of Branch Office for the period from \_\_\_\_\_ to \_\_\_\_\_ as per the details given below and found it in order except otherwise stated in Part-III of the Report.

### LOANS:

- i) There is no extraordinary Delay in disposal of Loan Applications
- ii) There is no violation of rules in appraisal of all loan application whether closed or sanctioned

### FINANCE:

- i) The bank Account and funds are properly maintained. All remittance are proper and timely.
- ii) The disbursement note is properly prepared after ensuring timely compliance of the condition(s).
- iii) No delay has occurred in disbursement of loan.

### PERSONNEL & ADMINISTRATION

- i) The instructions laid down for the conduct of Corporation's business are complied with.
- ii) The duty chart is there and responsibilities have been properly fixed.
- iii) The personal files & Service Books of the employees are completed in all respect.



6)

**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) The documentation and accounts particularly with reference to rate of interest & penal interest repayment schedule etc. are correct.
- iv) All the journal vouchers and memorandum journal vouchers are correct..
- v) The Change in interest rate during the audit period has been incorporated in all the cases..
- vi) The data has been fed of each and every new account opened/ closed .
- vii) The Cash Book and all vouchers are properly maintained.
- viii) The Bank Reconciliation Statements have been checked.

**LAW:**

- i) All the legal formalities are fully complied with for execution of loan documents executed during the year of audit.
- ii) The documents obtained from borrowers are complete and enforceable and advances are adequately secured.
- iii) There has been no undue delay in execution of loan documents.
- iv) All the terms and conditions of sanction of loan have been fully complied with before execution of loan documents.

### Follow up & Recovery

- i) Inspection of units have been conducted by all the officials as per norms of the Corporation.
- ii) 100% physical verification of primary & collateral securities has been carried out for the audit year.
- iii) The cases of closed units, units under possession, deficit cases, write off cases and other NPA cases have been examined.
- iv) All the cases filed Under Section 32-G. Decreed cases, BIFR Cases have been examined.
- iv) The cases of default in which loan is sanctioned on and after 01.04.2000 have been examined.
- v) All the cases in which default is more than two consecutive installments of principal or interest have been checked.
- vii) The ECS / 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 EDS/ PDCs in the branch has also been checked.
- viii) All the cases settled under OTS Scheme have been seen and they are paying as per settlement.

### GAD

- i) The assets of the Corporation are properly accounted for and are safe.
- ii) The physical verification of assets has been carried out by Branch Office.
- iii) The unusable/surplus furniture & fixtures and other assets have been ascertained.
- iv) The action for weeding out the record has been taken by the branch office.

### PART-III

Paras of irregularities/deficiency may be included in this Part.

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#### NOTE:-

All deficiencies noted by the Audit Team should be reported in the Internal Audit Report with supporting documents. Before finalizing the report it should be discussed with the Head of the Branch Office/Section Head of HO. Opportunity should be given to them to submit the required information and documents. Unnecessary para/ objection should not find place in the audit report.

It is not possible and also desirable to define the Scope of work of the audit team. The team by virtue of their experience would carry out the audit work which encompasses all the important parameters on working of the Corporation as also to include all deviations and lapses observed by them. They would look into all aspects of the working of the Offices of the Corporation to ensure that the interest of the Corporation is not compromised under any circumstances. However, each point of the checklist should be included by the team in their audit report besides other important facts as may be observed by them during the course of audit.