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MANUAL OF COMMERCIAL AUDIT PROCEDURE

PART II (17.1.12)



Jan 2012

**OFFICE OF THE PRINCIPAL DIRECTOR OF
COMMERCIAL AUDIT & EX-OFFICIO
MEMBER AUDIT BOARD, CHENNAI 600 034**

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* IDBI AMC and MF are to be transferred to other offices with effect from 1.4.2012 and files \ recors\ds pertaining to ICDS have not been received in this office and hence not included in the Manual.

PREFACE

Manuals on the Public Sector Undertakings (PSUs) under the audit jurisdiction of this office were compiled individually over a period of time. It was felt necessary that these manuals may be consolidated and updated to serve as a guide for the conduct of audit of PSUs. Therefore all important audit checks which need to be exercised during audit of PSUs are brought out in this comprehensive manual. Besides latest circulars \ orders from Headquarters on performance audit, Theme based audits and Three Phased accounts audit etc., have been included in the manual.

Suggestions, if any for improvement or modification will be appreciated.

Chennai
00.00.2012

Principal Director of Commercial Audit

CHAPTER 1

INTRODUCTION AND ORGANISATIONAL SET-UP

Introduction

Public Sector has been the focus of acrimonious debate over a considerable period of time. Divergent views have been expressed by distinguished economists, politicians and the captains of industries scanning its merits and de-merits. Started with only 5 Central Public Sector Undertakings in the year 1951, over the last six decades the number of PSUs is 466 (As on 31 March 2011) under the audit jurisdiction of the Comptroller and Auditor General of India. These included 329 government companies, 131 deemed government companies and 6 statutory corporations. All these were done with the sole objective of attaining a commanding height in Indian economy and also to give a thrust to the process of socio-economic development in the country with the noble objective of improving the quality of life of the people in general. Undoubtedly, with the enormous size of the Public Sector and its multi - faceted activities, it not only acted as a catalyst to economic and technological advancement in the country, but also acted as a trend setter for creating opportunities for the Private Enterprise.

Although, Public Sector gave a tremendous boost to the Indian economy up to a certain stage, its subsequent deterioration became so palpable that it attracted criticism from all corners. The great task assigned to the Public Sectors in generating wealth for improving the quality of life of the common people remained more a dream than a reality. The huge investment in Public Sectors could fetch a meagre return for ploughing back for their expansion and diversification. Instead of becoming self-reliant, they started depending more and more on Government subsidy thereby creating undue pressure on the public exchequer. The symptoms of mismanagement were manifest in its over staffing, under-utilization of capacity, low productivity, high inventories, over capitalization, time and cost over-run in implementing projects and indifference to quality of its products and services.

The public sector companies which worked under the umbrella of full protection of monopoly have a better track record than other public undertakings, which operated in a competitive scenario right from the beginning.

Public sector undertakings have a high degree of public accountability. Their actions are scrutinised by various agencies of the Government and the Legislature. This is because huge amounts of public money are invested in such enterprises and the management does not have a personal stake in the fortunes of the undertaking. In addition to the regular audit conducted by the professional accountants, the Comptroller and Auditor General of India conducts Compliance audit, Theme based audit, Performance audit and Three phased accounts audit etc. Comments of the Comptroller and Auditor General on public enterprises are presented to Parliament every year under Article 151 of the Constitution of India. Annual reports of the various enterprises are also required to be submitted to Parliament under the provisions of the Companies Act or of the Statutes governing statutory corporations. Parliament refers these reports to Committee on Public Undertakings (COPU) which examines whether or not these undertakings are being managed in accordance with sound business principles and prudent commercial practices.

In view of the special characteristics of the public sector undertakings, audit has some distinctive features. The auditors of public sector undertakings have to adopt certain techniques of Government audit on the one hand and the practices of Commercial audit on the other. Government audit is generally an audit of regularity, sanctions, propriety and efficiency. It seeks to verify whether the expenditure conforms to the various provisions of the law and the rules and whether it is covered by definite sanctions of a competent authority. It further examines whether every officer has exercised same vigilance in respect of the expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own monies and whether the said expenditure was necessary and whether individual items of the expenditure gave the best results. Government audit, in effect, is also an audit of efficiency and seeks to identify avoidable delays, infructuous expenditure, under-utilisation of various resources and shortfall in the accomplishment of physical targets.

In the case of Commercial audit, the primary objective is to determine whether the balance sheet and the profit and loss account give a true and fair view of the financial position and the working results of the Company. However, audit of public sector undertakings combines the features of Government audit and Commercial audit.

Commercial undertakings of the Government of India and various States can be classified broadly as follows:

1. Government Companies including their subsidiaries (as defined in Section 617 of the Companies Act, 1956)
2. Deemed Government Companies (as defined in Section 619-B of the Companies Act).
3. Statutory Corporations (established under specific Acts of Parliament \ State Legislature).
4. Departmentally managed Commercial undertakings.

In case of a Government Company, the following provisions envisaged in Section 619 of Companies Act shall apply:

1. The auditor of a Government Company shall be appointed or reappointed by the Comptroller and Auditor General of India.
2. The Comptroller and Auditor General of India shall have power to direct the manner in which the Company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) and to give such auditor, instructions in regard to any matter relating to the performance of his functions as such to conduct a supplementary or test audit of the Company's accounts by such person or persons as he may authorise on this behalf; and for the purposes of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, by such person or persons, and in such form, as he may, by general or special order, direct.
3. The auditor aforesaid shall submit a copy of his audit report to the Comptroller and Auditor General of India who shall have the right to comment upon, or supplement, the audit report in such manner as he may think fit.
4. Any such comments upon, or supplement, to the audit report shall be placed before the annual general meeting of the Company at the same time and in the same manner as the audit report.
5. Under Section 619 A of the Companies Act, 1956, the Central Government \ State Government shall prepare an Annual report on the working of the Government Company within three months of the Annual General Meeting and lay it, before both Houses of Parliament \ State Legislature together with a copy of the audit report and

comments thereupon or supplement to the audit report made by the Comptroller and Auditor General of India.

Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by the C & AG under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984.

The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the C & AG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General (Commercial) and consists of senior officers of the C & AG. Two technical experts are inducted as special invitees, if necessary. The Principal Director (Commercial) of the C & AG's Office is the Member, Secretary to the Board. The Board approves the topics recommended for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the stand alone performance audit reports after discussions with the representatives of the Ministry and Management.

This Manual of Commercial Audit contains detailed procedure of audit and major aspects to be looked into in respect of the following organizations for the guidance of staff.

1. Oil Companies:

- A. Indian Oil Corporation Limited (Southern Region)
- B. Bharat Petroleum Corporation Limited (Southern Region)
- C. Hindustan Petroleum Corporation Limited (South Zone)
- D. Chennai Petroleum Corporation Limited including Cauvery Basin Refinery
- E. BPCL Kochi Refinery
- F. Petronet CCK Limited

2. General Insurance Companies:

- A. United India Insurance Company Limited
- B. National Insurance Company Limited

- C. The New India Assurance Company Limited
- D. The Oriental Insurance Company Limited
- E. Tariff Advisory Committee

3. Miscellaneous Companies:

Cochin Shipyard Limited
Neyveli Lignite Corporation Limited
Hindustan Newsprint Limited
Madras Fertilizers Limited
The Fertilisers and Chemicals Travancore Limited
Hindustan Photo Films Mfg. Co. Ltd.
Sethusamudram Corporation Limited
HLL Lifecare Limited
Bharatiya Nabhikiya Vidyut Nigam Limited
Ennore Port Limited
Lakshadweep Development Corporation Limited
Tamil Nadu Trade Promotion Organisation
Pondicherry Ashok Hotel Corporation Limited
IDPL (TN) Limited
Airports Authority of India
National Aviation Company of India Limited
Salem Steel Plant
BHEL, PSSR, Chennai, BAP, Ranipet and ROD, Chennai
NTPC Limited, RSTPS, KCC, Alappuzha, S P P, Vizag.
Power Grid Corporation of India Limited, SRO I & II
Container Corporation of India Limited, SR and S C R, Hyderabad
HUDCO, Bangalore Local Head Office
Hindustan Insecticides Limited
Agricultural Development Finance TN Ltd

4. Rubber Board:

- A. Pamba Rubbers Limited
- B. Ponmudi Rubbers (P) Limited
- C. Meenachil Rubber Wood (P) Limited
- D. Rubberwood India (P) Limited
- E. Rubber Park India (P) Limited

KITCO Limited

ITCOT Consultancy & Services Limited

Indbank Merchant Banking Services Limited

Ind Bank Housing Limited

Chennai Metro Rail Company Ltd

NLC Tamil Nadu Power Limited

FACT-RCF Building Products Limited

IDBI Assets Management Company Limited

IDBI MF Trustee Company Limited

India clearing & Depository Service Limited

Consequent to rationalization, the following Companies \ units are transferred to the offices noted thereagainst:

Sl. No.	Name of the Company \ Unit of Company	Period from & reasons for addition made
1	Visvesvaraya Iron and Steel Plant-	Consequent to rationalization transferred to MAB, Bangalore.
2	National Textiles Corporation Limited (TN&P) Ltd, Coimbatore	RAP \ NTC transferred to MAB IV, New Delhi at Chennai w.e.f April 2008
3	Indian Rare Earths Ltd., Manavalakurichi, Chavra at Quilon & OSCOM, Orissa.	Transferred to MAB I, Mumbai.
4	RCON	Transferred to MAB
5	RAIL-TEL	Transferred to MAB
6	Housing and Urban Development Corporation Ltd. - Local Head Office, Bangalore	Transferred to MAB III New Delhi

Consequent to reorganization, the following Government Companies \ units of

Government Companies are brought under audit jurisdiction of this office from other MABs.

Sl. No.	Name of the Company \ Unit of Company	Reasons for addition made & effective date
1.	Airports Authority of India – Southern Regional Airports excluding Andhra Pradesh (20 units)	Transferred from MAB-I, New Delhi w.e.f. 1.4.2009.
2.	National Aviation Company of India Limited - Southern Regional Airports excluding Andhra Pradesh (15 units)	Transferred from MAB-I, New Delhi w.e.f. 1.4.2009.
3.	National Thermal Power Corporation Ltd, Kayankulam combined Cycle Plant, Alappuzha, Kerala. Simhadri Power Project, Vizag, Andhra Pradesh and Ramagundam Super Thermal Power Station, AP	Transferred from MAB-III, New Delhi w.e.f. 1.4.2009
4.	Units of Container Corporation of India Ltd. - Chennai & Hyderabad	Transferred from MAB-III, New Delhi w.e.f 1.4.2009.
7.	Units of Power Grid Corporation of India Ltd. Southern Region –I, Secunderabad & Southern Region –II, Bangalore	Transferred from MAB-III, New Delhi w.e.f 1.4.2009
8.	Housing and Urban Development Corporation Ltd. - Local Head Office, Bangalore	Transferred from MAB-III, New Delhi w.e.f 1.4.2009.
10.	Boiler Auxiliaries Plant, Ranipet BHARAT HEAVY ELECTRICALS LIMITED,	Transferred from MAB III New Delhi from April 2009.
11.	SALEM STEEL PLANT	Unit of SAIL attached to this office from MAB, Ranchi in 2004
12.	Petronet CCK Limited, Kochi	Newly formed Joint Venture in June 1998 entrusted to this office
12.	Agri Development Finance (Tamil Nadu) Limited	New company attached to this office.
13.	NLC Tamil Nadu Power Limited	New company attached to this office.
14.	Sethusamudram Corporation Limited, Chennai	New company attached to this office.
17.	Chennai Metro Rail Corporation Ltd.	Transferred from AG. Tamil Nadu in 2010

Organisational Set -up and distribution of work

An Organisation Chart is shown in *Annexure I*. The work of this office is distributed between two Group Officers. This office has six Resident Audit Parties (RAPs) which are located at Chennai, Neyveli (2), Udyogamandal (2) and Kochi. The charges under the two Group Officers are as under:

Deputy Director (Admn)

Deputy Director (Admn) is holding charge of Administration & EDP, Training \ IA, IOC \ Co-ordination, RAP \ NLC, Neyveli, RAP \ AAI & NACIL, Chennai and RAP \ CSL, Kochi. The following Companies \ units of Central Government Companies \ Deemed Government Companies are under the charge of Deputy Director (Admn).

Central Government Companies

1. Chennai Petroleum Corporation Limited including Cauvery Basin Refinery
2. Cochin Shipyard Limited
3. Neyveli Lignite Corporation Limited
4. Hindustan Newsprint Limited

Units of Other Central Government Companies

5. Indian Oil Corporation Limited (Southern Region)
6. Hindustan Petroleum Corporation Limited (South Zone)
7. Bharat Petroleum Corporation Limited (Southern Region)
8. Petronet CCK Limited
9. Airports Authority of India (excluding Andhra Pradesh)
10. National Aviation Company of India Limited (excluding Andhra Pradesh)

C. Deemed Government Companies

11. Agri Development Finance (Tamil Nadu) Limited
12. A.Pamba Rubbers Limited
13. B.Ponmudi Rubbers(P) Limited
14. C.Meenachil Rubber Wood (P) Limited
15. D.Rubberwood India (P) Limited
16. E.Rubber Park India (P) Limited
17. KITCO Limited
18. NLC Tamil Nadu Power Limited

Deputy Director (CA)

Dy. Director is holding charge of CA \ Co-ordination, Insurance \ Co-ordination and RAP

\ FACT, Udyogamandal. The following Companies \ units of Central Government Companies \ Deemed Government Companies are under the charge of Deputy Director.

CENTRAL GOVERNMENT COMPANIES

- 16 Madras Fertilizers Limited
- 17 The Fertilisers and Chemicals Travancore Limited
- 18 Hindustan Photo Films Mfg. Co. Ltd.
- 19 Sethusamudram Corporation Limited
- 20 HLL Lifecare Limited
- 21 Bharatiya Nabhikiya Vidyut Nigam Limited
- 22 Ennore Port Limited
- 23 Lakshadweep Development Corporation Limited
- 24 Tamil Nadu Trade Promotion Organisation
- 25 Pondicherry Ashok Hotel Corporation Limited
- 26 United India Insurance Company Limited
- 27 IDPL (TN) Limited

Units of Other Central Government Companies

- 28 National Insurance Company Limited
- 29 The New India Assurance Company Limited
- 30 The Oriental Insurance Company Limited
- 31 Tariff Advisory Committee
- 32 Salem Steel Plant
- 33 BHEL, Power Sector Southern Region (PSSR), Chennai, Boiler Auxiliary Plant (BAP), Ranipet and Regional Operations Department (ROD), Chennai
- 34 NTPC Limited, Ramagundam Super Thermal Power Station, Andhra Pradesh, Kayankulam Combined Cycle Plant, Alappuzha, Kerala, Simhadri Power Project, Vizag, Andhra Pradesh
- 35 Power Grid Corporation of India Limited, Southern Regional Office I, Secunderabad and Southern Regional Office II, Bangalore
- 36 Container Corporation of India Limited, Southern Region, Chennai and South Central Region, Hyderabad

- 37 Housing and Urban Development Corporation Limited, Bangalore Local Head Office
- 38 Hindustan Insecticides Limited

Deemed Government Companies

- 39 TCOT Consultancy & Services Limited
- 40 Indbank Merchant Banking Services Limited
- 41 Ind Bank Housing Limited
- 42 India Clearing and Depository Services Limited (under liquidation)
43. FACT-RCF Building Products Limited
44. IDBI Assets Management Company
45. IDBI MF Trustee Company
46. Chennai Metro Rail Limited

Duties and Responsibilities

The duties and responsibilities of different sections at Head Office are given below. Variation in duties and responsibilities may be effected any time under the orders of the Principal Director of Commercial Audit.

Administration and Establishment:

This Section is responsible for the day to day administration work and for all the matters relating to office establishment.

Reports Section:

This section deals with the following functions:

- Processing of Performance audit Reports \ Thematic study Reports \ Compliance audit reports \ Draft paragraphs, if any for issue to Ministry and Headquarters.
- Pursue the Reports on Performance audit \ Thematic study \ Compliance audit \ Draft paragraphs, with management \ Ministry \ Headquarters.
- To process and finalise the above reports and Draft paragraphs.
- To examine the Board Agenda \ Minutes of the Companies.

- Furnish returns to Headquarters.
- Vetting of Action Taken Notes received from Headquarters.
- Compilation and preparation of Annual Audit Plan.
- Preparation of Administrative Report.
- Compilation of material for Report No.2 of Comptroller and Auditor General relating to comments issued to the Companies, extracts from supplementary reports of statutory auditors etc.
- Maintenance of registers and files.

EDP Section:

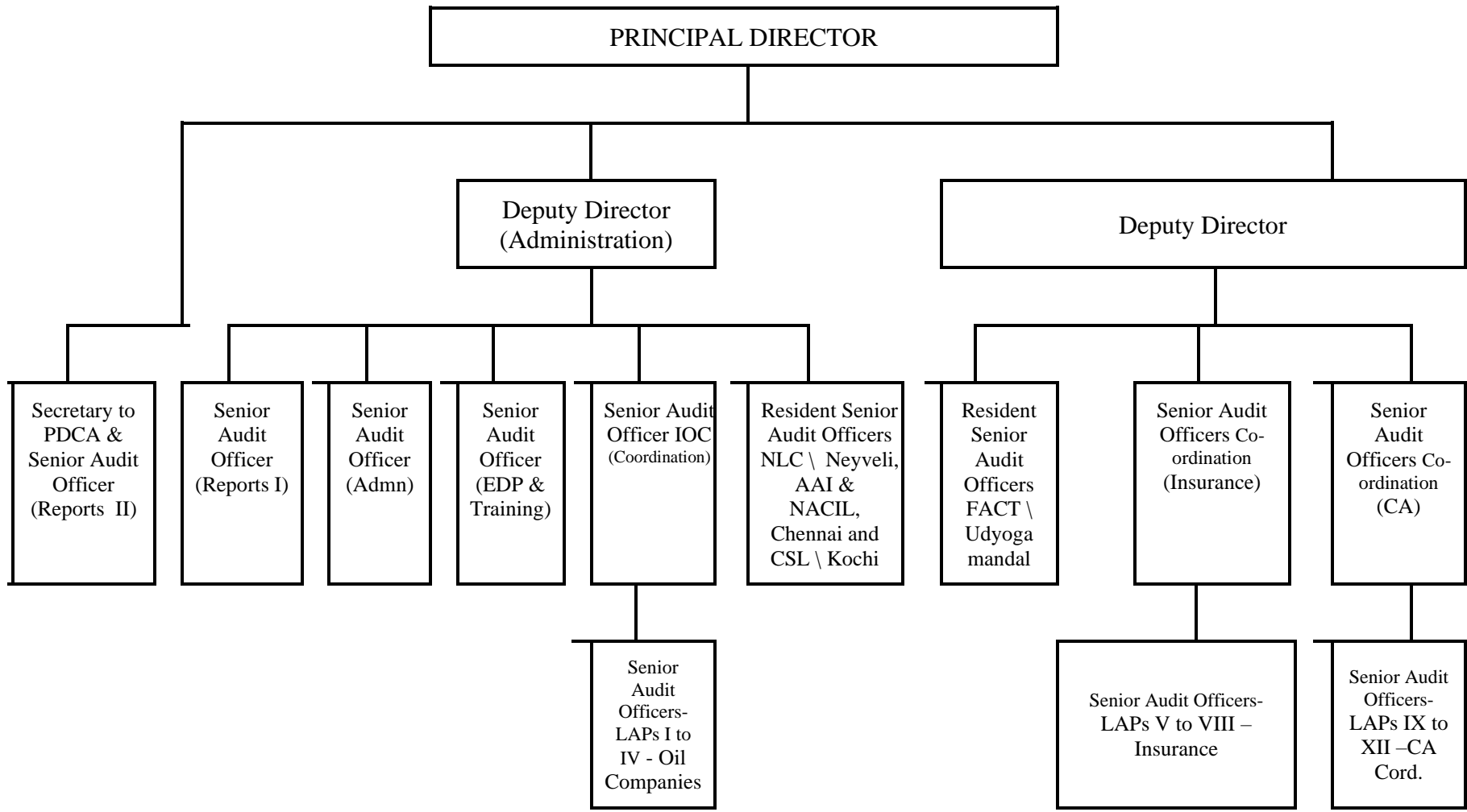
The Section is responsible to perform the following tasks:

- Establish and maintain a system of collecting information on computer based systems of audited entities.
- In respect of Administration Section, the following programmes have been implemented.
- Preparation of Pay Bill and its related schedules
- Sanctions for General Provident Fund part final \ temporary advance
- Sanction and Monitoring of Tour Travel Advance
- Gradation List
- Monthly Expenditure
- Income Tax Calculation and filing of returns - Form 16 & Form 28
- All the above programmes are running in dbase IV.
- In respect of Coordination Sections IR MAIN Software for information on Inspection Reports processing, Outstanding Paragraphs monitoring has been implemented.
- Imparting of training in computer operation and IT Audit.

EDP section has also developed programmes in MS Access for data entry and consolidation of Summarised Financial Results of Public Sector Undertakings for preparation of Audit Report No.1 of Comptroller and Auditor General of India - Union Government - Commercial - Review of Accounts on behalf of Headquarters Office. This work has been entrusted to this office since 1993. Data of nearly 336 PSUs for 3 years is consolidated in co-ordination with 15 sister offices.

Coordination Sections:

- Vetting Draft Reports on Compliance Audit \ Performance Audit \ Thematic Study and Draft paragraphs for submission to Deputy Director and issue of these Reports within the time allowed and pursuance thereof.
- Finalisation of the comments under Section 619(4) of Companies Act
- Furnish returns to Reports section
- Preparation of Potential Draft Paragraphs
- Issue of above reports to management
- Preparation of AAP and quarterly programmes for Local Audit including deviations, if any
- Compilation of material for the above reports
- To watch receipt and follow up supplementary report from statutory auditors and examine for sending comments to Reports Section for inclusion in Audit Report No.2
- Conducting Audit Committee Meetings for settlement of old pending paras in the Compliance audit Reports
- Maintenance of Audit Note book, other registers and files
- Review agenda notes and minutes of PSUs and communicate interesting \ important points to the audit parties for onward follow up in the field audits.



CHAPTER 2

AUDIT PLAN, PERFORMANCE AUDIT, THEMATIC STUDY, COMPLIANCE AUDIT REPORTS AND DRAFT PARAGRAPHS

The audit of an undertaking is mainly carried out through the Local Audit Parties and Resident Audit Offices setup in the respective organisations and function under the supervisory control of the Deputy Directors.

2.1 Main feature of Annual Audit Plan

Each office is required to prepare a comprehensive Annual Audit Plan (AAP) in the format prescribed based on the five year plan approved by Headquarters. The Annual Audit Plan for the next financial year may be prepared and sent to Headquarters during January of the previous year for approval. While preparing the AAP, factors like Companies \ units ceased to exist \ become defunct and newly added, means of strengthening the existing audit or reducing where necessary would be taken into account. Based on the approved AAP, quarterly audit programme may be drawn in advance.

The Annual Audit Plan may be a comprehensive document focussing clearly upon the following aspects

(i) an appreciation of the implementation of the previous Audit Plan indicating therein the weaknesses noticed and the lessons learnt from the audits concluded successfully, the benchmarks achieved in respect of ongoing subjects of audit and most importantly the results of preliminary \ pilot studies on the basis of which topics \ areas which may be excluded from the scope of Audit Plan or included for detailed audit examination in the ensuing year

(ii) the status of research, data collection and pilot studies in respect of each subject or topic on which a report is to be prepared as per the Audit Plan

(iii) the available manpower resources need to be used more effectively to achieve better results. Available audit resources need to be distributed on the basis of significance and materiality after conducting a systematic risk assessment. 90 *per cent* of audit party days can be utilised equally by allocating 30 *per cent* of party days for each of the three audit frame works- Theme based Audit \ Compliance Audit, Performance \ IT Audit and Accounts Audit and remaining 10 *per cent* for administration, co-ordination and other miscellaneous items of works.

(iv) Risk Based Approach to Theme based audit \ Compliance Audit by utilising 30 per of the available audit resources for effective audit planning and implementation.

(v) the targets in terms of milestones, field work, (e.g. approach paper, pilot study, draft guidelines, approved guidelines, field work, first draft Performance Audit Report to the management, discussion with Management \ Ministry and final draft) for each Performance Audit and in terms of number of thematic issues \ draft paragraphs in respect of theme based audit \ compliance audits, inspections of audited entity units, IT audit etc.,

(vi) time schedule relating to specific target dates for submission of the Annual Audit Reports as well as Performance Audit Report and

(vii) the degree of coverage proposed to be made through Audit Plan vis-à-vis total area of responsibility in terms of number of companies as well as investments.

2.2.1 Theme based Audit \ Compliance Audit

The Compliance audit is presently carried out and reported as per Section-VI, Inspections and Local Audit-I, General Instructions Para No.6.1.20 of MSO (Audit). However, Headquarters directed (January 2008) the field offices to refocus the Compliance audit from 2008-09 onwards for identifying thematic issues and for carrying out audit on similar lines as performance audit to bring out and report on systemic weaknesses. While auditing the selected unit, the focus has to be narrowed on the activity \ theme selected with utilisation of at least 80 per cent of time allowed to Compliance audit on that theme only. Remaining 20 per cent of party days can be utilised for other areas of audit.

2.2.2 Risk Based audit approach in Compliance Audit:

Due to shortage of resources at the disposal of audit, it is not always possible to cover all the auditable units in Compliance Audit. Hence there is need to select high risk areas, conduct of manageable number of units, have focused approach, conduct in depth audit of scientifically selected representative sample, shift the approach from coverage of 'all accounting \ auditable units' to coverage of 'all major areas of risk' over a reasonable period of time and have proper and timely follow up of Audit observations.

2.2.3 Objective of Theme based audit \ Compliance Audit is to highlight:

- Non-compliance with laws, regulations and general directions of the Government; rules and regulations of the PSU, instructions of their Board of Directors;
- Cases of persistent and pervasive irregularities suggesting a need to reform or remedy systems; and
- Cases of fraud, waste, abuse of managerial discretion and mismanagement: A detailed examination of existing organisation structure, procedure and other records is necessary to assess the possibility of factors which provide opportunities for fraud, malpractices and corruption and identify the cases, if any.

For each of these audit objectives, quality of internal controls needs to be assessed.

Audit risk has to be assessed for all major PSUs' core activities on the basis of probability of occurrence of an event and its impact on the business operations of PSUs. Adequate time needs to be spent in understanding business operations of the PSUs' processes, products, services, procedures and controls in each area of activity.

2.2.4 Risk

Risk could be internal or external to the PSUs, which can be classified into following illustrative categories:

- (i) External factors
 - Increase in competition;
 - Market conditions;
 - Fiscal policies including regulated prices for raw materials or finished products;
 - Economic and political scenario;
 - Natural events.
- (ii) Internal factors
 - Weak corporate governance;
 - Weak risk management (i.e. identification, evaluation, prevention and mitigation of risk);
 - Failure to manage projects effectively (proportion of projects completed on time within budgeted cost and with customers satisfaction)

- Weak internal controls and internal audit systems
 - High discretionary powers;
 - Weak enforcement of laws
 - Weak monitoring of significant controls
 - Delay in correction of known material weakness;
- Ineffective accounting and Information Technology systems;
- High turnover of key personnel;
- Competence of the personnel in accordance with job requirements;
- Decline in operational and financial performance;
- Loss of key personnel;
- Failure to innovate; and
- Excessive controls limiting the growth of business activities.
- Working capital problems

2.2.5 Audit Planning

Audit planning involves the following steps:

1. Classification of PSUs based on their size and scale of operations;
2. Understanding the business activities of PSUs and associated risks
3. Identification of activities and theme carried out by the PSU
4. Selection of theme \ activity for audit based on scientific risk assessment
5. Selection of units of PSUs to audit the selected theme \ activity
6. Evaluation of the worthiness of audit outcome before taking up the work
7. Allocation of audit resources based on scale of operations and business risk; and
8. Selection of sample, documentation, preparation of report and their follow up.
9. Assessing of time required for conducting audit

I. **Classification of PSUs based on their size and scale of operations**

Companies can be classified based on their turnover in the following four categories:

1. **Very large PSUs:** Maha Navratna \ Navrathna and 'public interest entities' having annual turnover more than Rs.1000 crore;
2. **Large PSUs:** Public interest entities having annual turnover less than Rs.1000 crore
3. **Small and medium PSUs** having turnover less than Rs.100 crore;

4. **Other PSUs**-Defunct PSUs having turnover less than Rs.5 crore.

II. Understanding the business activities of PSUs and associated risks

The process of understanding the functioning of the PSUs and their activity may involve the following steps:

- Familiarising with the PSUs and their activities by review of their annual reports, PSU website, administrative reports, annual reports of the ministry concerned, media reports on PSUs, relevant chapters of the commercial audit manual (Part II) and previous audit reports.
- If appropriate, a visit to the actual operations (survey) may be conducted to become familiar with the activity risks, and controls to identify areas or emphasis;
- Budget information, operating results and financial information of the activities;
- Objectives and goals of the activities;
- MIS reports
- Review of the policies, plans, procedures, laws, regulations, and contracts that could have significant impact on operations and reports;
- Organisational structure (including job description and segregation of duties)
- Audit Report of the Statutory Auditors including Report under CARO 2003;
- Supplementary report of the statutory auditors under section 619(3)(a) of the Companies Act, 1956;
- Report of the internal auditors;
- Correspondence file with the Ministry \ department
- Review of Agenda and Minutes of the Board and other Committees of Management;
- Authoritative technical literature appropriate to the activity;
- Special reports, if any, on the functioning of PSU or its activities; and
- Parliamentary questions.
- Review of performance of similar companies in the field

III. Identification of activities and theme carried out by the PSU

The theme \ activities can be identified based on the performance of various business segments as reported by the PSU in its financial statement or on the basis of its nature of

activities. These may invariably include corporate governance and procurement. The Major areas of risks or themes could be in the following categories:

- Corporate Governance:
 - (a) Corporate planning, risk management, Board Minutes, Audit Committees minutes, Management \ consultancy reports, Management compliance reports to Board's directivities,
 - (b) Corporate Social Responsibilities-Environmental issues; Resource conservation-Energy, Water, Material, waste \ disposal of effluents, Compliance with labour and environmental laws, Health and safety and security environment,
 - (c) Prevention of fraud and corruption.
- Procurement:
 - (a) Materials, machines and equipments
 - (b) Complete Projects,
 - (c) Consultancy,
 - (d) System of invitation of bids to award of contracts
- Project management and execution of jobs \ contracts \ works etc.,
- Production planning and control,
- Material management (including life cycle of management of inventory right from receipt of requisition to receipt, storage and utilisation \ disposal),
- Marketing and sales,
- Financial management (including raising of finance, credit policy and realisation of accounts receivable) and Investment of surplus funds,
- Real estate management
- Human resource management and
- Other residual category. For example in case of insurance companies, the list cover the following activities:
 - (d) Underwriting of business including management of agents and brokers
 - (e) Settlement of claims including appointment of surveyors and Third Party Administrators

- (f) Compliance with IRDA regulations on business spread, underwriting and claim settlements
- (g) Spreading of risk, Reinsurance
- (h) Investment of surplus funds and compliance to GOI \ RBI and IRDA guidelines
- (i) Treasury management or themes could be based on the nature of insurance, General, Fire, Health, Motor, Marine, Life etc.

IV. Selection of theme, based on scientific risk assessment

At least two themes \ activities may be selected for audit in very large PSU and at least one theme \ activity may be selected in large PSUs every year so that all the identified themes \ activities are covered over a reasonable period of time -say three years.

V. Selection of units of PSUs to be audited

Selection of units may also be based on risk assessment.

VI. Allocation of audit resources based on scale of operations and business risk

After identification of themes, selection of themes, selection of units to be audited, resources are to be allocated to the themes, selected for detailed study.

VII. Selection of sample, documentation, preparation of report and follow up.

1. After selection of PSUs, activity or the theme to be audited and units to be visited, a representative sample may be selected on the basis of statistical sampling techniques. The outcome of such audits can be reported in the Transaction \ Compliance Audit Reports irrespective of its value.
2. The objection noticed as a result of audit may be recorded in the form of an audit enquiry \ query and then issued to the Management for obtaining their remarks. Audit query \ enquiry may be prepared in duplicate and one copy be given to the Management even while the audit is in progress. The audit query may bear serial numbers and proper acknowledgement is obtained from the Officer receiving the query. Every effort may be made to get replies to audit queries. The drafting of Inspection Report may in no case be delayed due to non-receipt of replies to the preliminary audit queries issued
3. The audit findings other than the selected themes could be considered for the following:
 - (i) selection of themes for future audit

- (ii) Managements are addressed through inspection reports or letters so that such irregularities could be stopped immediately in all units including those not planned for audit.
- (iii) such audit findings, if material, could also be considered for inclusion in the CAG Reports.

4. The following documents may be prepared:

- (i) Assessment of risk;
- (ii) Basis of selection of theme
- (iii) Basis of selection of sample, size of sample and transactions selected for audit
- (iv) Audit Check list
- (v) Name and designation of person conducting the checks,
- (vi) Nature of irregularity noticed and relevant key documents, and
- (vii) Whether the irregularity was included in the Audit Report.

5. The Draft Inspection Report (DIR) prepared by the supervising officer may be discussed with the Management either on the last day of the audit or on any mutually convenient time. The signature of the officer who discussed the DIR may be obtained in the DIR. Field parties may send the DIR, Title Sheet (Annexure II) with all necessary documents and previous IRs to Coordination Sections, within 3 days of the last day of the audit.

6. After issue of the Inspection Report, the coordination sections may submit the Inspection Report to PDCA for selection and review. The Inspection Reports selected for review may be submitted to PDCA with all documents.

7. Management of the organisation is required to furnish replies to Inspection Reports within four weeks and any delay in their receipt may be watched by the Coordination Section. In case of delays in receiving replies, the matter may be taken up with the appropriate authorities at a higher level. On receipt, the replies will be scrutinised to see (i)

whether para in the inspection report can be developed into a draft paragraph, (ii) whether further clarification for certain points have to be called for, (iii) whether on the basis of replies received, the Para can be dropped. Deputy Director`s approval is necessary to drop any Part I B paragraph.

8. In order to reduce outstanding observations, Audit Committees are constituted and periodic meeting organized with audited entities. Further, quarterly DO letters from Group officer to CMD \ CEO of each company are addressed, highlighting all the outstanding ‘audit observations’ (Inspection Report wise and unit wise) with the following columns:

- (i) Gist of the audit observation,
- (ii) What is expected from the management?
- (iii) Action taken \ response of the Management, and
- (iv) Recommendation \ further remarks of audit.

9. Action taken \ reply received from the management may be updated on monthly basis in respect of each auditable unit. In case of PSUs having very large number of units, such letter may be sent Regional heads with a copy to CEO. Initially it may take some time to capture the data, but it will be very effective and timely. This would facilitate the following:

- (i) Improving audit effectiveness by enforcing accountability of the persons responsible for the lapse or provide opportunity to management to take timely corrective \ remedial action;
- (ii) Clubbing of persistent and pervasive irregularities \ lapses highlighting weak areas of control -suggesting a need to reform or remedy the systems.
- (iii) Easy identification of Potential draft paras.

10. Implementation of system of follow up of inspection reports through quarterly reports may be watched through ‘Calendar of Returns’

2.3 Internal Control Questionnaire

A set of questionnaire to be applied in the audit of the main functions of an organization are set out below. Gathering and analyzing the information provided by the management to such Questionnaire would give audit fair idea on the activities undertaken and facilitate audit focus on the probable areas to be selected for audit. This Questionnaire is intended to be a specimen only and needs to be modified suiting the audited entity organization visited.

2.3.1. General

- Is an organisation chart available?
- Whether allocation of duties and responsibilities of officials' \ employees have been distinctively defined in the organisation chart?
- Whether the system and procedure to be adopted for rotation of duties of employees dealing with Cash, Stock and other valuables designed?
- Is an accounting manual in use? Whether the manual is reviewed and amended \ updated periodically?
- *Whether the organisation is required by statute to maintain Cost Accounting records?*
- Whether the accounting records are maintained upto date?
- Is there any budgetary control system in vogue?
- Is there any Management Information System (MIS) in vogue? If yes, do such reports cover all aspects of Company's operation? Whether the MIS is effective?
- Whether the organisation has an internal audit system in force and if so, whether any Internal Audit Manual is in use, what is the scope of internal audit and whether such audit covers all the activities of the organisation?
- Is the internal auditor independent of accounting functions and whether he reports directly to the chief executive of the organization?
- Whether follow-up actions are taken on internal audit reports?
- What is the system of accounting followed in units \ branches and how is the internal control system at branches been evaluated?
- What is the reporting system from branches to Headquarters? How branches are controlled by Head Office?

2.3.2 Cash and Bank Transactions

- Is there a system of centralised monitoring of inward mail and whether mail is opened by persons not connected with handling cash and whether they are duly stamped and particulars of cheques \ drafts entered in a Register?
- Are all cheques specially crossed by receipts prepared?
- Is there a detailed records of receipts prepared?
- What is the procedure followed in accounting of receipts and what internal control systems exist to verify that all receipts are deposited in Bank and taken into account?
- What are the documents \ registers prescribed for accounting of Cash transactions? What is the in-built system for verification of accuracy in maintaining these accounts?
- Is there a system of reconciling Bank accounts regularly and reviewing the outstanding items?
- What is the system adopted for accounting branch transactions in Head Office books?
- What are the procedures adopted for physical verification \ surprise checks of cash what is the frequency?
- What is the policy of the company with regard to the disbursements and whether ECS is adopted to avoid commissions' \ discounts \ delays?
- Do vouchers contain evidence of examination \ defacing by those authorising payments and signing cheques.
- Is there a system of delegation financial authority and whether the limits are specified and reviewed periodically for disbursal and obtaining of loans from financial institutions?
- Is there an effective system in force for obtaining receipts from payees and filing those?
- Are bank loans or over-drafts (including temporary overdrafts) arranged only by officials authorised by the Board?
- Are fixed deposit receipts and Bank Guarantees held in safe custody and whether there exist a fixed deposit register showing maturity dates, rates of interest with dates of payments?
- Is there a follow-up system to ensure that the Principal and interest on fixed deposits are received on due dates and that correct amounts are realised?

2.3.3 Material Management

2.3.3.1 Purchases

The main objective of purchase management is to procure raw materials, supplies and stores of the requisite quality at the right price and time. The following aspects are to be seen to evaluate whether or not these objectives are being met:

- How is the purchase function organised? Is there a separate purchase department for various units or is purchasing a centralised function?
- What is the purchase policy? Does it take into account the uncertainties in availability of materials consequent to the changes in the economic scene?
- Are the purchase requirements take into account Production Schedules and level of inventories?
- Is there a system of delegation of powers for purchases?
- How does the organisation ensure regular and dependable supplies?
- Is there a system of empanelling of suppliers goods and services-wise?
- Does the company maintain a database on the contracts executed by the empanelled suppliers?
- Is there an information system whereby the latest market information regarding new products, spare parts and machinery items useful for the organisation is automatically collected and considered?
- What is the system of executing emergency purchases? What is the percentage to total purchases?
- Is there a system of blacklisting suppliers for bad performance?
- Are studies conducted periodically to analyse the various price trends in order to form an opinion about the future prices of the major raw materials in use?
- Are regular comparisons made between the average purchase prices paid by the organisation and the average market prices?
- What are the built-in-controls against mis-utilisation of purchasing powers?
- How effective is the system of follow-up of orders?
- Does the system record information on items not accepted \ partial receipts \ unfulfilled orders?
- Is the system followed for inspection \ measuring product receipt consistent?

2.3.3.2 Inventory

Inventory management aims at keeping an adequate stock of raw materials and other items at the minimum carrying costs. The following questionnaire may help in bringing out how far this objective is being fulfilled:

- How is inventory management organised? Is there a separate department looking after this function or is it a part of purchase department?
- Are the storekeepers well equipped to grasp the fundamentals of the inventory control system and to apply it intelligently in practice?
- Is there a well defined policy regarding inventories? Are inventory levels worked out keeping in view factors like availability of funds, future price trends, production planning etc.?
- What is the system of maintaining of Stores records? Are perpetual inventory records maintained? Are the records upto date?
- What is the system of receipt and inspection of stores?
- What is the system of physical stock taking? Are the physical stocks verified on a continuous basis involving internal audit department? If periodic stock taking is conducted, are the cut-off arrangements effective? How are discrepancies between actual stocks and book stocks dealt with?
- Is there a system of ABC analysis?
- Is there adequate control over obsolescence of materials? Are stocks reviewed periodically to identify slow moving, dormant or obsolete items?
- How is the investment in various items of stores controlled?
- What is the system of material issues? Is the policy followed consistently?
- How effective is the Management information system regarding inventories?
- Are actual losses during storage computed periodically and compared with standards?
- What percentage does the material at site constitute of the total inventory? Whether physical verification covers the Material at site also. If so what is the periodicity? Whether MAS items are subjected to ABC analysis?

2.3.3.3. Trade Debtors

- Is there system for recording all sales orders received?

- Is there a system for laying down credit limits and whether the same is being implemented?
- Are receipt \ inspection wings separate from dispatch and whether all despatches allowed with proper security checks and documentation?
- Are sales invoices checked against:
 - (a) Sales orders (b) goods outward notes and (c) delivery notes (d) Price lists
- What are the systems in existence for the purpose of authorisation of (a) discounts (b) returns and allowances and (c) the writing off of bad debts?
- Are monthly statements of account rendered to customers and confirmations received?
- Are periodic debtor confirmation procedure carried out by internal audit department?
- In the case of export sales:
 - (a) Is a record maintained of export entitlements due?
 - (b) Does the record cover the utilisation \ disposal of such entitlements?
 - (c) Is there a procedure to ensure that the claims for incentives etc. receivable are made in time?
- What is the system followed for sale of scrap and waste?

2.3.4. Audit of Production Management

The production management covers the following areas:

- (a) Project formulation and implementation
- (b) Production Planning and control

The aim of audit in the area of Production Management is to ensure that the right product of the right quality has been produced at the right time using the right method. The term 'Production' consists of production planning and controlling of the process of production, so that, it moves smoothly at the required level. Production planning is routing of items for maximum utilisation of the available resources. Control is exercised with reference to a standard norm. It is therefore, necessary to assess the reasonableness of fixing of standards and suggest improvements by critical review of the standards and actual over a period of time.

No standard procedure could be prescribed for the various checks to be made in audit as the manufacturing operation \ production process varies from organisation to organisation. The nature of the industry and the Production \ Manufacturing operations involved must therefore be understood before taking up the audit of production management. A set of questionnaire to be adopted \ points to be examined during the audit of production management is set out below:

2.3.4.1 Project Formulation and Implementation

- Whether the choice of a product and the product-mix and production method are assessed on the basis of cost benefit analysis.
- Whether the market demand has been assessed duly taking into account past records, analysis of changing economic scenario inter-firm comparison, competition, availability of substitutes etc.
- Whether the decision on location of site took into consideration the economical movement of sources of raw materials, utilities, market etc.
- In the investment proposals, whether the factors like construction of building, selection of plant and machinery, capacity utilisation, balancing of capacity, social costs, tax concessions planning etc. have been duly considered.
- Whether due considerations have been given to the plant layout, use of materials handling equipments, tooling and maintenance, warehousing facilities etc. with reference to costs

2.3.4.2 Production Planning and control

- Examine the nature of business, the management plans, policy and objectives and the operation of the organisation.
- Review the existing production planning, scheduling and control system. Examine the adequacy and effectiveness of the same in actual practice.
- Examine the system of production scheduling, inventory control and progress scheduling to determine the effectiveness of production control.
- Is there any production flow chart for disclosing the sequence and scheduling of production process from receipt of order from customer \ advice from the Sales Manager for production to despatch the goods?

- Are there any periodical meetings among production department, sales department, engineering and accounts departments for resolving bottlenecks?
- Is there a system of conducting periodical industrial engineering programme to look after the optimum utilisation of materials, men and machines?
- Is there a quality control department? Is the department functioning efficiently?
- Has proper standards \ norms been fixed for each area of operation, wastages and quality control system to ensure that the product conforms to the specification?
- Examine and review the system of documentation and see whether any improvement in record keeping has been made to make production planning and control department more effective.
- Is there relationship between the price and product planning policy? Is the cost of the product related to unit, volume and performance?
- On what grounds the overall profitability objectives are determined and whether long range profit planning prepared?
- Is such planning a composite one in each area such as selling, production and finance and balanced to produce the best level of profit, having regard to the constraints within which the company is functioning?

2.4. Draft Paragraphs

Headquarters had stipulated (Sept 2010) that besides Theme based paras, only those paras which have a money value of Rs, 5.00 crore may be processed and issued to the Ministries and those with less than Rs.5.00 crore vale may be discussed with the management. Exception will be made only in specific sectors like Insurance, Sick Companies or cases which highlight serious irregularities like embezzlement, misappropriation of funds or blatant violation of rules and regulations.

Cases, which are more than three years old and have lost their topicality, may not be processed as draft paras unless financial implication is very significant.

2.5 Risk Assessment as a tool for Audit Planning

Risk includes any event which could adversely affect an organization's activities in any form. The degree to which its operations are exposed to inefficient use of financial, material or human resources also indicates the risk to its operations. The tendency of any system to have problems and the negative potential for such events would be part of the risk faced by that organization.

Thus, any action which could affect the reputation of the organisation, its performance, or result in censure by regulatory bodies must also fall in the ambit of the organization's risk tolerance policy.

Qualitative factors in determining risk would be that such a risk is detrimental to economic growth; to public health or safety; or to national security. In quantitative terms, it could mean impairment in the value of a PSU's assets, in revenue not being realised; in major assets being wasted or under-utilised, or in excess payments being made.

Risk analysis is, therefore, the process of determining the probability of the occurrence of loss and its potential impact.

Hitherto, units have been selected primarily on a rotation basis. However, with the accumulated knowledge of the audited entity operations and the experience from past audits, we can apply a risk assessment approach to audit planning to identify high priority areas in the annual plan.

Risk assessment is an integral component in the development of an audit plan. It can be used to assign weightage to potential audits based upon specific risks to a company's operations that will assist the office concerned in determining which areas may be selected for review.

Risk factors	High risk	Medium risk	Low risk
1. Size of the unit			
2. Compliance with regulations: (exposure to potential loss due to complexity and volume of regulations)			

3. Public visibility: (exposure to potential loss due to public interest or interest of legislators)			
4. Degree of management oversight: (exposure to potential loss due to low \ inadequate degree of responsiveness of management to shortfalls \ deficiencies noticed and in implementing previous recommendations)			
5. Age of operations: (exposure to potential loss caused by change in operations, policies, personnel, systems)			
6. Auditability (exposure to potential loss due to infrequent internal \ external audits)			

High, medium, or low columns indicate the auditors' assessment of the exposure of the entity to potential loss due the six areas listed above.

In addition to the above, a risk-assessment procedure will have to focus on the following so that it can be adequately highlighted in the audit report.

- ◆ Whether the company \ corporation has demonstrated a commitment to resolving problems highlighted
- ◆ The extent of progress made by the company in strengthening controls to address the problem highlighted
- ◆ Whether the corrective plans proposed are adequate
- ◆ Whether the solutions can be implemented in the immediate future and
- ◆ Whether the solutions will address and eradicate the problem

AUDIT CHECKS (Illustrative)

CHENNAI PETROLEUM CORPORATION LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%		80	20	-	-
(b) 10-50 lakh- 75%		75	25		25
(c) 50 lakh -1 crore - 100		75	25		25
(d) 1 - 5 crore - 100%			100		
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	80	20		10	-
(b) 5-10 lakh - 10%	80	20		10	
(c) 10 -25 lakh - 10%		50	50		20
(d) 25 – 50 lakh - 10%		75	25		20
(e) above 50 lakh - 10%		25	75		10
Works Contract					
(a) less than 10 lakh - 10%	80	20		10	-
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

02. COCHIN SHIPYARD LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%	80	20		10	-
(b) 10-50 lakh- 100%		80	20		25
(c) 50 lakh -1 crore - 100%		80	20		25
(d) 1 - 5 crore - 100%			100		-
(e) above 5 crore - 100%			100		-
No. of Sale orders					
(a) less than 5 lakh - 10%	100			10	
(b) 5-10 lakh - 10%	100			10	
(c) 10 -25 lakh - 100%		50	50		10
(d) 25 - 50 lakh - 100%		-	100		
(e) above 50 lakh - 100%		-	100		
Works contract					
(a) less than 10 lakh - 10%	80	20		10	-
(b) 10-50 lakh- 100%		50	50	-	10
(c) 50 lakh -1 crore - 100%			100	-	-
(d) 1 - 5 crore - 100%		50	50		10
(e) 5 - 10 crore - 100%		50	50		10
(f) above 10 crore - 100%			100		

03. NEYVELI LIGNITE CORPORATION LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Purchase orders					
(a) less than 10 lakh - 5%	80	20		10	-
(b) 10-50 lakh- 50%		75	25		10
(c) 50 lakh -1 crore - 100%		75	25		10
(d) 1 - 5 crore - 100%		25	75		10
(e) above 5 crore - 100%			100		-
Sales Orders					
(a) less than 5 lakh - 5%	80	20		10	-
(b) 5-10 lakh - 10%	50	50		10	10
(c) 10 -25 lakh - 10%		75	25		10
(d) 25 – 50 lakh - 100%		50	50		10
(e) above 50 lakh - 100%			100		
Works Contract					
(a) less than 10 lakh - 5%	80	20		10	
(b) 10-50 lakh- 50%		75	25		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%		75	25		10
(e) 5 - 10 crore - 100%		25	75		10
(f) above 10 crore - 100%			100		

04. HINDUSTAN NEWSPRINT LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Purchase orders					
(a) less than 10 lakh - 10%	75	25		10	
(b) 10-50 lakh - 75%		75	25		25
(c) 50 lakh -1 crore - 100%		75	25		50
(d) 1 – 5 crore - 100%		25	75		25
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	75	25	-	10	
(b) 5-10 lakh - 50%	50	50			25
(c) 10 -25 lakh - 75%		75	25		25
(d) 25 - 50 lakh - 100%		50	50		25
(e) above 50 lakh - 100%			100		
Works Contract					
(a) less than 10 lakh - 10%	75	25		10	
(b) 10-50 lakh - 100%		75	25		25
(c) 50 lakh -1 crore - 100%		75	25		25
(d) 1 – 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore			100		

05. MADRAS FERTILIZERS LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%		80	20	-	-
(b) 10-50 lakh- 75%		75	25		25
(c) 50 lakh -1 crore - 100		75	25		25
(d) 1 – 5 crore - 100%			100		
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	80	20		10	-
(b) 5-10 lakh - 10%	80	20		10	
(c) 10 -25 lakh - 10%		50	50		20
(d) 25 - 50 lakh - 10%		75	25		20
(e) above 50 lakh - 10%		25	75		10
Works Contract					
(a) less than 10 lakh - 10%	80	20		10	
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

06. THE FERTILISERS AND CHEMICALS TRAVANCORE LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Purchase orders					
(a) less than 10 lakh - 5%	80	20		10	
(b) 10-50 lakh - 50%		50	50		10
(c) 50 lakh -1 crore- 100%		50	50		10
(d) 1 - 5 crore - 100%		50	50		10
(e) above 5 crore- 100%		25	75		10
Sales Order					
(a) less than 5 lakh - 5%	80	20			
(b) 5-10 lakh - 50%	50	50			10
(c) 10 -25 lakh - 75%		50	50		10
(d) 25 - 50 lakh- 100%		75	25		10
(e) above 50 lakh- 100%		25	75		10
Works contract					
(a) less than 10 lakh - 10%	50	50		10	
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore- 100%		50	50		10
(d) 1 - 5 crore - 100%		75	25		10
(e) 5 - 10 crore - 100%		25	75		10
(f) above 10 crore - 100%			100		

07. HINDUSTAN PHOTO FILMS MANUFACTURING COMPANY LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%	50	50	-	10	-
(b) 10-50 lakh - 75%	-	80	20		50
(c) 50 lakh -1 crore - 100%	-	50	50		25
(d) 1 - 5 crore - 100%	-	-	100		
(e) above 5 crore - 100%	-	-	100		
No. of Sales orders					
(a) less than 5 lakh - 10%	80	20		20	-
(b) 5-10 lakh - 50%	50	50		50	50
(c) 10 -25 lakh - 100%		75	25	-	50
(d) 25 – 50 lakh - 100%		50	50	-	50
(e) above 50 lakh - 100%			100		-
Civil works \ Works contracts					
(a) less than 10 lakh - 10%	80	20	50	10	-
(b) 10-50 lakh - 100%		50	100	-	25
(c) 50 lakh -1 crore - 100%			100		-
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

08. SETHUSAMUDRAM CORPORATION LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%		80	20	-	-
(b) 10-50 lakh- 75%		75	25		25
(c) 50 lakh -1 crore - 100		75	25		25
(d) 1 – 5 crore - 100%			100		
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	80	20		10	-
(b) 5-10 lakh - 10%	80	20		10	
(c) 10 -25 lakh - 10%		50	50		20
(d) 25 - 50 lakh - 10%		75	25		20
(e) above 50 lakh - 10%		25	75		10
Works Contract					
(a) less than 10 lakh - 10%	80	20		10	
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

9. HLL LIFECARE LTD

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%	50	50	-	10	-
(b) 10-50 lakh - 75%	-	80	20		50
(c) 50 lakh -1 crore - 100%	-	50	50		25
(d) 1 - 5 crore - 100%	-	-	100		
(e) above 5 crore - 100%	-	-	100		
No. of Sales orders					
(a) less than 5 lakh - 10%	80	20		20	-
(b) 5-10 lakh - 50%	50	50		50	50
(c) 10 -25 lakh - 100%		75	25	-	50
(d) 25 – 50 lakh - 100%		50	50	-	50
(e) above 50 lakh - 100%			100		-
Civil works \ Works contracts					
(a) less than 10 lakh - 10%	80	20	50	10	-
(b) 10-50 lakh - 100%		50	100	-	25
(c) 50 lakh -1 crore - 100%			100		-
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

10. BHARATIYA NABHIKIYA VIDYUT NIGAM LIMITED (BHAVINI)

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
No. of Purchase orders					
(a) less than 10 lakh - 10%		80	20	-	-
(b) 10-50 lakh- 75%		75	25		25
(c) 50 lakh -1 crore - 100		75	25		25
(d) 1 – 5 crore - 100%			100		
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	80	20		10	-
(b) 5-10 lakh - 10%	80	20		10	
(c) 10 -25 lakh - 10%		50	50		20
(d) 25 - 50 lakh - 10%		75	25		20
(e) above 50 lakh - 10%		25	75		10
Works Contract					
(a) less than 10 lakh - 10%	80	20		10	
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

11. ENNORE PORT LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Purchase orders					
(a) less than 10 lakh - 10%	50	50		10	-
(b) 10-50 lakh- 75%	-	75	25		25
(c) 50 lakh -1 crore - 100%		50	50	-	25
(d) 1 - 5 crore - 100%		50	50		10
(e) above 5 crore - 100%			100		-
Sales orders					
(a) less than 5 lakh - 10%					
(b) 5-10 lakh - 10%					
(c) 10 -25 lakh					
(d) 25 - 50 lakh					
(e) above 50 lakh					
Works contract					
(a) less than 10 lakh - 10%	50	50	-	10	-
(b) 10-50 lakh		50	50		25
(c) 50 lakh -1 crore		50	50		10
(d) 1 - 5 crore		75	25		10
(e) 5 - 10 crore		25	75		10
(f) above 10 crore			100		-

**15 UNITED INDIA INSURANCE COMPANY LIMITED \ NEW INDIA ASSURANCE
COMPANY, \ NATIONAL INSURANCE COMPANY \ ORIENTAL FIRE AND
GENERAL INSURANCE COMPANY**

Fire Department

	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Premium					
< 25,000	10	--	--	25	--
> 25,000 < 50,000	10	--	--	25	--
> 50,000 < 1 lakh	--	50	--	--	25
> 1 lakh	--	100	--	--	25
Claim settled					
< 1 lakh	10	--	--	25	--
> 1 lakh < 5 lakh	--	50	--	--	25
> 5 lakh	--	20	80	--	--

Marine Department

	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Sum Insured					
< 50 lakh	10	--	--	25	--
> 50 lakh < 2 crore	--	50	--	--	25
> 2 crore < 10 crore	--	100	--	--	25
> 10 crore < 50 crore	--	100	--	--	25
> 50 crore	--	100	--	--	25
Claim settled					
< 1 lakh	10	--	--	25	--
> 1 lakh < 5 lakh	--	50	--	--	25
> 5 lakh	--	20	80	--	25

Miscellaneous Department

	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
Sum Insured					
< 50 lakh	25	--	--	25	--
> 50 lakh < 1 crore	--	50	--	--	25
> 1 crore < 10 crore	--	100	--	--	25
> 10 crore	--	--	100	--	--
Claim settled					
< 1 lakh	10	--	--	25	--
> 1 lakh < 5 lakh	--	50	--	--	25
> 5 lakh	--	20	80	--	25

20. KOCHI REFINERIES LIMITED

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	SO \ AAO	AO \ SAO	SO \ AAO	AO \ SAO
	%	%	%	%	%
of Purchase orders					
(a) less than 10 lakh - 10%		80	20	-	-
(b) 10-50 lakh- 75%		75	25		25
(c) 50 lakh -1 crore - 100		75	25		25
(d) 1 - 5 crore - 100%			100		
(e) above 5 crore - 100%			100		
Sales Orders					
(a) less than 5 lakh - 10%	80	20		10	
(b) 5-10 lakh - 10%	80	20		10	
(c) 10 -25 lakh - 10%		50	50		20
(d) 25 - 50 lakh - 10%		75	25		20
(e) above 50 lakh - 10%		25	75		10
Works Contract					
(a) less than 10 lakh - 10%	80	20		10	
(b) 10-50 lakh- 100%		50	50		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%			100		
(e) 5 - 10 crore - 100%			100		
(f) above 10 crore - 100%			100		

CHAPTER 3

Performance Audit

Introduction: The Objective of Performance Audit is to improve the Public Sector administration and accountability by value addition through an effective programme of performance audit comprising (a) Regularity Audit (b) Economy Audit (c) Efficiency Audit (d) Effectiveness Audit (e) Evaluation of the impact of the policy (f) Evaluation of the consistency of the programme with the policy (g) Evaluation of the effectiveness of the policy and analysis of causality.

The mandate of CAG of India for performance audit is governed under section 13, 14, 15,16,17,19 and 20 read with Section 23 of CAG (DPC) Act 1971. The Ministry of Finance, Department of Economic Affairs, vide its Office Memorandum No. F No. 6 (5) – B (R) \ 99 dated 13th June 2006 clarified that the performance audit is deemed to be within the scope of audit by C&AG for which, Performance Auditing Guidelines drawn up by C&AG already exist. All performance audit reports will be presented to the Parliament \ Legislature in stand-alone volume throughout the year as per the pre-determined schedule included in the strategic plan document and not in an open ended manner.

Audit Officer would lead the performance audit team. Group officer may lead one or more teams at a time. The Principal Director would lay down the procedures and ensure that the audit personnel are not shifted before completion of the performance audit assigned to them.

3.2 Objectives of performance audit

As per para 30 of Chapter 1 of P.A. guidelines, Performance auditing has the objective of improving public sector administration and accountability by adding value through an effective programme of performance audits. One of the main objectives of performance auditing is to assist the people's representatives in exercising effective legislative control and oversight over the policy objectives and their implementation. In summary, the performance audits may examine and report on:

- the quality of information and advice available to government for the formulation of policy;
- the existence and effectiveness of administrative machinery to inform the government whether programme objectives and targets have been determined with a view to fulfilling policy objectives;

- whether and to what extent, stated programme objectives have been met
- the economy, efficiency, effectiveness, equity and ethics of the means used to implement a programme \ activity;
- the intended and unintended, direct and indirect other impacts of programmes \ activities; for example, the environmental impact of government activity, etc.; and
- Compliance to applicable laws and regulations in the context of the performance audit objectives.

3.3 Performance audit specific in nature (para 32 of Chapter 1 of P.A. guidelines)

Given the size, complexity and diversity of entity operations, it is generally not practicable to attempt assessment of the overall performance of departments or entities. Consequently, performance audits are usually directed towards specific functions, activities, programmes or operations of the entity. Performance audit findings are not a random assortment of various financial and regularity audit findings but an assessment of either the whole or the part of the programme \ subject \ function \ system.

3.4 Expected outcome of performance audits (para 36 of Chapter 1 of P.A. guidelines)

Performance audits have a dual role. They provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices. Performance auditing may, therefore, lead to better accountability, improved economy and efficiency in the acquisition of resources, improved effectiveness in achieving public sector programme objectives, a higher quality in public sector service delivery and improved management planning and control. Thus, performance audits promote accountability, insights and transparency in governance and deliver credible, objective and reliable information on implementation of policy objectives and contribute to good governance. It is an important responsibility of the SAI management to ensure that through each performance audit one or more of these objectives are met. The extent of positive impact on the policies and programmes through performance audit is the most important measure of its quality.

3.5 Performance Audit Process

Performance Audit Process passes through

- a) Strategic Planning (Chapter 2 of these guidelines)
 - b) Performance Audit Initiation (Chapter 3 of these guidelines), and
 - c) Implementation Stage (Chapter 4 & 5 of these guidelines).
-
- **Reporting Process** (Chapter 6 of these guidelines) has follow up procedures to identify and document audit impact and the progress in implementing the audit recommendations and providing feed back to SAI (Supreme Audit Institution) \ Legislature \ Parliament on performance audit effectiveness.
 - **The strategic plan** (Chapter 2 of these guidelines) may be supported by working papers like description of the entity and its environment, risk assessment, summary of performance audit directions, inquiries and evaluations, list of potential areas and a list of audits proposed during the strategic plan period and the plan document needs to be approved by SAI top management and may be forwarded by the Accountant General
 - **Quality assurance** in strategic planning may be kept at high. As a rule, all performance audits may be completed within a maximum period of 12 months of a financial year (From April to March) unless specifically authorized in view of the nature of the subjects or nature of the entity environment
 - **Audit planning** may lead to the development of a detailed audit programme that identifies the specific audit tasks to be undertaken. Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of audit.
 - The critical aspects in planning are
 - Scope of audit
 - Information on the subject
 - Collection and research on the data
 - Preliminary survey and pilot study
 - Setting the audit objectives and criteria
 - Assessment of skill and knowledge
 - Finalizing the guidelines along with audit programme

3.6 Implementing the Performance Audit Plan

As per Chapter 4 of P.A. guidelines the process of implementation of Performance Audit steers through

- Audit Engagement begins with the communication of the subject of the performance audit and inviting suggestions for any subject or segment and is sustained with the request for documents and formal presentation by the entity.
- Entry Conference at the commencement of each field audit affords an opportunity for the audit party to explain the audit plan, audit objectives, approach and time frame besides appraising the entity of the data, information and documents that will be required by the audit team, establishing working procedures etc. The minutes of the entry conference may be prepared. Following the audit objectives, audit criteria, evidence is required to be gathered and the functions performed by the field units to be audited, the audit team may prepare a list of questions \ documents and information to be obtained.
- Audit programme needs to be developed considering the size of the programme \ entity, geographic dispersion, audit environment etc. The focus of the audit programme is retained throughout the field audit on the criteria, which inherently relate to the audit objectives.
- Audit approach is the method adopted for deriving audit conclusions.
- Audit test programme refines audit criteria into a series of procedures and \ or activities to obtain relevant and reliable evidence to draw upon audit conclusions. It may have Clear Purpose, Good layout \ design, Cost effective and may also Sound logical, flexible and easily understood.
- Audit recommendations are the logical conclusions of the performance audit process and relate to the causes of audit findings, which may be agreed to or disagreed to by the entity audited.
- Audit observation must be self contained and may be communicated to the entity.
- Exit Conference is to discuss on the audit findings with the audited entity and SAI. All audit observations may be issued at least two days before the exit conference. The minutes of the exit conference may be recorded and endorsed to the entity.

3.7 Evidence and documentation

Chapter 5 of P.A. guidelines deals with Evidence and documentation. The audit report stands on the basis of the audit evidence. Evidence may be Competent, Relevant, Sufficient and reasonable, Persuasive and Corroborative.

The evidence collected, needs to be analysed against audit objectives \ criteria to arrive at audit observation \ conclusions \ recommendations. Documentation may be methodical and adequate and should support the audit conclusion.

3.8 Reporting Process

Chapter 6 of the P.A guidelines guides the performance audit teams through the process of the development of the final report. The contents of the report needs to be easy to understand, free from ambiguity but supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise. The report may be clear, balanced, timely, consistent and value added. All forms of reports (discussion papers, audit observations and draft field audit report) leading to finalisation of the draft audit report may be focussed on the final output and may be complete, self-sustaining within the limitation of the responsibilities and accountability of the individual field units and the data held by them. The audit observations should contain the bulk of the information, findings, conclusions and recommendations and they may differ from the field audit report or draft performance audit report only to the extent warranted by the entity's response.

The performance audit report shall contain Title, highlights, Recommendations, Introduction, Scope of audit, Audit objectives, Audit criteria, Audit methodology, Audit findings, Lessons learnt and sensitivity to error signals, Acknowledgement, Graph, charts, diagrams, photographs etc., Glossary of items and References & Bibliography.

3.9 Supervision, Review & Quality Control:

Chapter 7 of the PA guidelines deals with the system of Supervision, Review of the work of Performance Audit and Quality Control. Supervision may be directed both to the substance and method of auditing.

Supervision by	Period
Principal Director \ Accountant General \ Group supervisory Officer -	Planning the individual performance audit
Audit Officer-	Course of audit
Principal Director \ Accountant General- SAI top management-	Review of periodic reports, interim appraisals Approval, strategic and operational planning, implementation guidelines

Group Officer may involve with all key elements of the performance audit process and hence he \ she plays the key role in supervision. Review of the performance audit is carried out by

- a) Audit Officer on concurrent basis while concluding a particular stage of work
- b) Group Supervisory Officer at the time preparation of discussion papers, audit observations and field audit report
- c) Accountant General at the time of preparation of field audit report and draft audit report
- d) SAI top management during the mid-term appraisals and workshops and while evaluating the draft performance audit report and quality checks before approval of C & AG.

High quality of performance audit is established if it can be demonstrated that audit findings, conclusions and recommendations are supported by quality evidence, analysis and supervision.

3.10 Follow up procedures:

Chapter 8 of P.A. guidelines deals with Follow-up procedure. The Principal Director vets Action Taken Notes for correctness of facts and figures, adequacy of the remedial measures. Action taken reported in the notes of the entity is accepted and if needed may be verified specially during the follow-up programme. The Principal Director may prepare annual operational plan for follow-up programme and this is incorporated in the AAP prepared by each field office.

The follow-up procedures begin from the Inventory of recommendations.-.maintained as permanent data base. - including the final recommendations if any, made by the COPU. The inventory is updated periodically and reports sent to SAI Hqrs. at prescribed intervals. Any

inordinate delay in implementing the recommendations is taken up with Prime Minister through SAI top management \ C & AG. The Principal Director carries out evaluation of the effectiveness of the performance audit and the result of the evaluation sent to SAI top management.

3.11 Quality Assurance in Performance Audit

Chapter 9 of P.A. guidelines deals with Quality Assurance in Performance Audit.

Quality assurance review programmes must not be confused with quality control measures. It comprises

- Planning review is done to ensure that the plan is consistent with SAI's strategic goals and objectives
- Ongoing review is conducted to maintain the quality of tasks
- Task reviews are carried out on all completed tasks prior to finalization
- Product review is done on the final product against the standards and stipulations in the guidelines
- Annual Review Programme established by SAI is done independent of those involved with the audits, to ascertain the weakness in the methodology and practices

Report on quality assurance reviews may be placed before SAI top management annually or on demand during the course of the year indicating the constitution of the review team, terms, period of coverage, period of quality assurance review, objectives, findings (both positive and negative) etc. SAI shall publish summary of quality assurance reviews for internal use within the department.

CHAPTER 4

AUDIT OF ACCOUNTS OF PUBLIC SECTOR UNDERTAKINGS

4.1 Audit Objectives and Scope

Major objectives of audit of accounts of companies \ corporations are to ascertain whether the Financial Statements;

- present a true and fair view of the entity's financial position;
- are prepared in accordance with the Accounting Standards and laws, if any, governing the entities;
- are presented with due consideration to the circumstances of the audited entity;
- contain sufficient disclosures on all aspects, including any unusual items; and
- are properly evaluated, measured and presented.

The detailed audit of Government Companies and deemed Government Companies is conducted by Statutory Auditors appointed under the Companies Act by the Comptroller and Auditor General of India.

Duties and responsibilities of the Comptroller and Auditor General of India in relation to the audit of Government Companies are described in the succeeding paragraphs:

4.2 Issue of Directions to Statutory Auditors

Statutory Auditors have to function within the parameters of the Companies Act, 1956. Their primary responsibility is to examine and certify the Profit and Loss Account and the Balance Sheet ensuring that they disclose a true and fair view of the Company's financial position. They are required to see that the managements have complied with various provisions of the Companies Act and the generally accepted Accounting Standards as well as the guidelines issued by the Institute of Chartered Accountants of India.

The Comptroller and Auditor General of India issues directions to the Statutory Auditors for conduct of audit under Section 619(3)(a) of the Companies Act, 1956. In addition, PDCA issues sub-directions to the Statutory Auditors highlighting the area of weakness and those requiring special attention relevant to each PSU, before they take up that audit.

4.3 Supplementary or Test Audit by the Comptroller and Auditor General of India

Section 619(4) of the Companies Act provides that the statutory auditor shall “submit a copy of his audit report to the Comptroller and Auditor General of India who shall have the right to comment upon or supplement to the audit report in such manner as he may think fit”. This provision gives powers to the Comptroller and Auditor General of India to conduct an additional audit where he finds it necessary or when the normal audit reveals gross irregularities or mismanagement. In exercise of his powers, Comptroller and Auditor General of India conducts a review of the financial statements of selected companies as reported upon by the Statutory Auditors. Thus, the Comptroller and Auditor General of India reviews the account only after the statutory auditor signs the audit report. As a result of the supplementary audit by Comptroller and Auditor General of India the accounts may need to be revised, in which case the statutory auditors have to issue a fresh audit report on the revised accounts. Under Section 619(5) of the Act, the comments of the Comptroller and Auditor General of India are required to be placed before the Annual General Meeting of the company together with the Audit Report.

A Supplementary or test audit, which is in the nature of an efficiency-cum-propriety audit, is conducted by Comptroller and Auditor General of India. This has the following primary objectives.

- Verification of the technical accuracy of the accounting records, books of account and financial results with reference to the Accounting Standards.
- Detection or prevention of misstatements and window dressing in \ of the financial statements.
- Evaluation of the achievements by the company, with reference to its objective.
- Detection or prevention of frauds, misappropriation and other acts of omissions and commissions.

4.4 Statutory Provisions Relating to Annual Accounts

According to Section 211 of the Companies Act, 1956, every Balance Sheet and Profit and Loss Account of the Company shall give a true and fair view of the state of affairs of the company and further, the Balance Sheet shall be in the form as prescribed and mentioned in Schedule VI (Part - 1) of the Companies Act, 1956.

The requirements for the preparation of Profit and Loss Account are given in Part II of the Schedule VI. Figures for previous year shall be given in respect of each item.

Information given in the accounts may be as complete as possible. If there is any departure from the usual accounting practice, the same shall be indicated by way of a note. Items of extraordinary nature or those unrelated to the Company's business or items relating to earlier years or profits arising out of revaluation of assets due to a change in the basis of accounting may be separately stated. Figures substantially affecting profit and loss shall be shown separately. Consumption of raw materials and turnover shall be shown in terms of quantity value as well. All adjustments relating to earlier years shall be reported separately. Any departure from the standard principles of accounting or from the basis of accounting principles previously adopted by the company shall be reported separately. Any item that indicates a basic or significant change in the Company's business or method of carrying on business shall be reported.

4.5 Reopening \ Revision of Accounts

Company can reopen and revise its accounts even after their adoption in the Annual General Meeting in order to comply with technical requirements of taxation laws and adopt the revised annual accounts in the subsequent AGM and file with the Registrar of Companies.

Insurance Regulatory and Development Authority (IRDA) can direct Insurance companies, to reopen their accounts.

A Company can reopen and revise its accounts even after their adoption in the annual general meeting and filing with the Registrar of Companies in order to comply with technical requirements of any other law to achieve the object of exhibiting true and fair view. The revised annual accounts would be required to be adopted either in the Extraordinary General Meeting or in the subsequent AGM and the same shall be filed with the Registrar of Companies. (Ministry of Finance and Company Affairs, Department of Company Affairs Circular No.17 \ 75 \ 2002-CL.V dated 13.01.2003).

4.6 Selection for Audit under Section 619 (4)

All companies are not selected for audit every year under Section 619(4) of the Companies Act. The following criteria have been laid down for selection of companies for audit:

- Annual Audit will be conducted in the case of
 - (i) All Central Government Companies having a paid up capital or turnover of Rs.50 crore or above.
 - (ii) Any company selected for appraisal or review.
 - (iii) Finance companies despite their 619(B) status
- Audit will be conducted once in three years in the case of all other companies (Central, State and 619-B Companies).
- Any other company could also be selected for audit annually at the discretion of Principal Director of Commercial Audit subject to reasons being recorded and intimated to Comptroller and Auditor General of India.
- In the case of units of companies allocated to a field office other than the Principal Audit Officer, the selection of units will also be made by the Principal Audit Officer and intimated to the concerned field officer.
- The selection of companies' \ units for review under Section 619(4) of the Companies Act, 1956 may be made by the Principal Director of Commercial Audit in the beginning of each financial year. The list of companies and units selected may be kept in the personal custody of the Principal Director of Commercial Audit.
- The Review of Accounts may be prepared only in respect of such companies, which qualify for selection annually. In respect of companies selected for audit under Section 619(4) on a rotational basis and for all 619B Companies no review of accounts may be prepared.

4.7 Audit Planning

(a) Pre-audit analysis

The audit planning process may include analysis of the accounts of the audited entity for the earlier two years, together with the statutory auditor's report (including the supplementary report); the analysis may be used to decide, the possible areas for intense scrutiny. This can also be used to formulate appropriate sub-directions under section 619(3) of the Companies Act, 1956 for issuing to the statutory auditors.

(b) Meeting with Statutory Auditors

It may be ensured that the areas of weaknesses identified by in pre-audit analysis are brought to the Statutory Auditors' notice along with written sub-directions for detailed scrutiny. Besides, drawing up the time schedule, these meetings may focus on areas where special attention is called for. In the case of Joint Statutory Auditors, the distribution of work among the auditors may also be ascertained and kept on record to ensure their accountability and assess their performance.

(c) **Three Phase System of Audit of Annual Accounts:**

In the light of Headquarters direction (April 2009) to the field offices, Audit of Annual Accounts of PSUs are to be conducted in three phases from the Accounting year 2009-10 onwards instead of in single phase.

The following are the Pre-requisites for conducting Three Phase System of Audit of Annual Accounts:

- PSUs to agree to the implementation of the system of and extend active co-operation to audit.
- Each MAB conducts a proper and scientific audit assessment before commencement of first phase of audit.
- Interaction by the MAB concerned with the Managements of the PSUs towards successful implementation of the systems.
- As far as possible the same audit team is assigned all the phases of accounts audit and in case it is not possible, at least one the member of the team shall be the same.
- The PSUs will give their draft accounts to MAB office concerned along with schedules for conducting Phase II audit.

Audit Methodology

Audit of financial statements may be conducted in three phases as under:

I Phase-I

Listed companies prepare quarterly financial results (QFR) and submit to the stock exchanges. Other major companies may also be preparing QFR or Half yearly results (HYR). Phase-I audit may be conducted on receipt of QFR of second quarter or First HYR in case of the companies, which do not prepare QFR \ HYR. Phase – I audit may be conducted in the month of **November or December**.

Following aspects may be seen in Phase I Audit:

- Understanding of the accounting system, including IT system of the PSU.
- Risk assessment, including review of internal control system in the PSU may be conducted.
- Analysis of accounting policies, notes to accounts with reference to the applicable laws and disclosures in conformity with the accounting standards as per last year confirmed accounts. In subsequent years, emphasis may be made

only on modifications \ proposed modifications adoption of new accounting policies, accounting standards, relevant laws and regulations.

- An effort may be made to bring consistency in the accounting policies of the companies in the same sector.
- Compliance with the previous year's assurance given by the Management and issues raised in the Management letters'.
- Previous year's audit findings of the statutory auditors and of Headquarters office.
- Modifications in the opening balance, if any, or rectification of errors done by the company may also be reviewed to evaluate the efficiency of the internal control system.
- Based on the above (items I to IV), quantum of checks to be exercised and department \ units to be visited, scope and coverage will be decided. Further audit of the draft accounts to be submitted by the Management may be conducted in Phase II.
- Issues of principle, accounting policies, accounting standards, opinions of the Export Advisory Committee of ICAI may be discussed with the management. Proposed changes in the Accounting policies and Notes to Accounts may also be discussed.
- Preliminary audit findings emanating from Phase-I and points of disagreements may be brought to the notice of the statutory auditors. The Management of the PSU may also be apprised of these audit findings. The issue involved may be reconsidered after obtaining reply of statutory auditors and Management. Final view may be taken at MAB level and communicated to the statutory auditors in the form of MAB's sub-directions. Management of PSU may also be apprised of the final view to elicit co-operation towards attainment of the objective of compliance by the PSU to the accepted commercial accounting principles, applicable laws and accounting standards etc, and
- Once remedial action is action is taken by the Management, such cases may be reported to the Headquarters for inclusion in CAG's Report as `value addition at the instance of CAG`. Cases of points of disagreement would be processed as draft comments by the field office for Headquarters` approval.

II Phase-II

This may be conducted as a test audit at the end of the financial year i.e. in the month of April based on draft accounts received from the PSUs. The following aspects may be verified during this phase:

- Audit of units, selected in Phase-I based on draft accounts submitted by the PSU, may be conducted.
- Review of system of verification of inventories cash and bank balances including fixed deposits, investments and other items finalised at year end and confirmation of balances of debtors, creditors, loans and advances, etc.
- Instructions issued by the head office of the PSU to its units for compilation \ consolidation of accounts. Any deviation in the instructions from the accounting policies, accounting standards etc may be taken up with PSU
- PSUs may be asked to render their draft accounts timely along with Schedule for the period ending with third quarter of the financial year to MAB office concerned for conducting Phase-II audit. In case any PSU is not in position to render the draft accounts with schedules, detailed vouching may be carried out on the basis of QFRs. Proper documentation with relevant records of the audit \ vouching etc done during the phase may be maintained for subsequent use and reference.
- Preliminary audit findings noticed as a result of test audit and vouching in Phase-II and approved by the MAB \ DGA may be issued to statutory auditors of the PSU in the form of MAB's sub-direction under Section 619(3) (a) of the Companies Act 1956 with a view to ensuring that the Statutory Auditors conduct, inter-alia, thorough examination of all such related matters. In the event of non-compliance by the PSU to the accepted commercial accounting principles, applicable laws and accounting standards, the statutory auditors would report appropriately on these matters in their report on the financial statements as per the standards of reporting. The Management of PSU may also be apprised of the final view to elicit co-operation towards attainment of the objective of compliance to accounting principles, law and accounting standards etc.

III Phase-III

On receipt of financial statements \ accounts duly approved by the Board of Directors of the PSU and reported upon by the statutory auditors, the following aspects shall be verified during this phase:

- Verification of action taken on earlier audit observations;
- Compliance with the consolidating \ grouping instructions;
- Review of memorandum of changes effected by the PSU in the approved accounts vis-à-vis the draft accounts on which audit in Phase-II was conducted;
- Accounting and disclosures of the events occurring after the balance sheet date;
- Final disclosures made in the approved accounts;
- Compliance with the financial reporting requirements of the relevant laws, rules and regulations, accounting standards etc.;
- Examination of the Report of the statutory auditors especially the qualifications opinions and compliance with relevant Auditing and Assurance Standards; and
- Issue of draft audit observations to the statutory auditors as well as the Management and to process the same for HQrs. office for approval, wherever required as per present practice.

(d) Allocation of work

Audits may be planned and executed with care. The Group Officer's involvement is essential if audit is to be effective. Therefore, it has been decided that, before the start of any audit, the group officer shall indicate in writing the special checks to be exercised by the party, if any. The SAO \ AO in charge of the party may be responsible for allotting the work to individual members, supervising the execution of the work and ensuring that work done is properly documented. Any item of work not specifically allotted, shall be deemed to be the work of the SAO \ AO himself.

After the completion of the audit, the SAO \ AO in charge of the audit party may send along with the inspection report and other documents, a statement showing the checks out of the check list which were not exercised during the audit indicating also the reasons there against.

4.8 Use of Check List

During the Audit of Government Companies following points may be examined:

- Whether the provisions of the Companies Act, 1956 (or the relevant statutes governing the Corporation concerned) have been complied with
- Material deviation from the objectives listed in the memorandum & articles of association of the Company
- Whether instructions of the Government of India have been followed
- Whether ICAI's following pronouncements have been adhered to
 - (i) Accounting Standards
 - (ii) Guidance Notes and Opinions
 - (iii) Statements on Standard Auditing Practices (SAPs)
 - (iv) IA & AD's Auditing Standards
- International Accounting Standards and International Auditing Guidelines, wherever ICAI's standards \ guidelines are not available.
- Whether accounting procedures for proper control over expenditure and realisation of revenues are adequate
- Whether there is any large accumulation of surplus stores \ finished stock
- Whether the method of charging depreciation on the assets is reasonable
- Whether bad and doubtful debts have been outstanding for long periods and if so, the reasons therefor and action taken for early realisation
- Whether internal control mechanisms -that assist the management in safeguarding assets and resources and in complying with laws and regulations and provide assurance about the accuracy and completeness of accounting records -are available and operate as desirable.

While examining the comments on the accounts of Government Companies \ Corporations, it has been observed that a number of PSUs are window dressing their accounts for showing better results. The possible ways by which the companies can manipulate their profits are:

- Wrong setting of sales or accounting of income on services rendered at the time of closing of accounts.
- Manipulation in valuation of the closing stock of inventories.
- Unrealistic accounting of interest income, or principal amount which is doubtful of recovery.
- Some `time expenditure` is accounted for less or more to manipulate the profit \ loss. For example providing less or more depreciation, providing less or more for

statutory dues, doubtful debts \ loans and advances \ investments and other liabilities.

- Sometimes specific liabilities are shown as contingent liabilities.
- Making a provision and then writing it back in subsequent year.
- Frequent changing of accounting policies for showing better results.
- Manipulation in accounting various claims including non-registration.
- brief disclosure in notes on accounts in lieu of providing for known liabilities or income
- Non-registration off title deeds of property and also not providing for liability on account of expected stamp duty payable on registration of title deeds.
- Absence of clear title on property.
- Prior period adjustments.
- Sale \ purchase of securities \ investments.
- Depreciation, amortisation and depletion in the case of Oil & Gas accounting.
- Reserves created during revaluation of fixed assets.

4.9 Scrutiny of Auditors' Report

The Auditor's Report will undoubtedly be perused by the field party. It may be remembered that the statement included in the Auditor's Report, in compliance of the Companies (Auditor's Report) Order, 2003 (w.e.f. 01.07.2003) is a constituent part of the Auditor's Report and has to be scrutinised in the same manner as the rest of the Auditor's Report. Further, in respect of every reservation, qualification or adverse remark contained in the Auditor's Report but contested by the Management, the Management may be asked to offer its explanation so that the field party can examine and determine justification offered.

4.10 Procedure for Issue of Comments under Section 619(4)

Generally, the responsibility to audit the accounts under Section 619(4) of the Act would arise only on receipt of certified accounts from the Statutory Auditors. But in order to avoid delay in the issue of final comments, audit may be started on receipt of a copy of the accounts approved by the Management. However, the preliminary comments or audit objections on such audit may neither be issued to Management nor made known to the Statutory Auditors till the certified accounts along with audit report of Statutory Auditors are made available to Government Audit.

Audit queries are issued by the Inspecting Officer to the Management for immediate reply. On receipt of the replies from the Management, a Broad Sheet incorporating audit queries, replies of the management and further observations of the Inspecting Officer is prepared. A preliminary discussion with the management at Deputy Director's level is held. After scrutiny, Provisional Comments are prepared and issued to the Statutory Auditors \ Management. On receipt of the replies to the provisional comments, an Annotated Statement incorporating provisional comments, Management's replies, Statutory Auditor's replies and further observations by audit is prepared. The provisional comments are discussed by the Principal Director of Commercial Audit with the Management and Statutory Auditors. Some of the provisional comments are settled and from the remaining provisional comments, the Draft Comments are prepared. Thereafter, the draft comments along with the Annotated Statement and Review of Accounts together with the assessment on the performance of Auditors is sent to Headquarters for approval. On receipt of approval, the final comments are issued under the signature of Principal Director of Commercial Audit (PDCA).

In case the PDCA has no comments to offer under Section 619(4) of the Act, Nil comment certificates is issued to the company by the PDCA without reference to Headquarters.

A non-review certificate may be issued in the cases of Companies whose accounts are audited rotationally. However, before issue of non review certificate, a prima facie check on the preparation and presentation of accounts and the Statutory Auditors' report may be exercised on receipt of certified accounts.

Following letters \ circulars received from Headquarters are relevant to the context:

A Circular No. 346-CA-IV \ 4-98 dated 10.12.2002 of Office of the Comptroller and Auditor General of India is reproduced below:

While finalizing the comments of one of the PSUs under Section 619(4) of the Companies Act, 1956, it was observed that the draft comments were proposed by the field offices on points already qualified by the statutory auditors in their Audit Report and disclosed by the company in the Notes on Accounts, without any additional facts \ information to supplement the same. It is requested that the issues already qualified by the

statutory auditors need not be commented upon unless there are points in addition requiring specific attention.

B. Circular No. 122 \ CA-IV \ 04-98 dated 16.05.2002 of Office of the Comptroller and Auditor General of India reproduced below:

While finalizing the comments under Section 619(4) of the Companies Act, 1956 of a PSU, it was observed that the Statutory Auditors' had not reported the total effect of all their qualifications on the Profit and Loss account \ state of the affairs of the company in their Audit Report as required under the 'Statement on Qualifications in the Audit Report' of Institute of Chartered Accountants of India (ICAI). A comment under Section 619(4) of the Companies Act, 1956 has, therefore, was issued after quantifying to the extent possible. In order to maintain uniformity, DAI(C) has desired that a draft comment duly quantifying the total effect of their qualifications under Section 619(4) of Companies Act shall be proposed to Headquarters for approval in cases where Statutory Auditors' failed to quantify the overall effect of their qualifications on the Profit and Loss account \ state of the affairs of the company.

C. Circular No. 78 CA.IV \ 04-98 dated 11.03.2002 of Office of the Comptroller and Auditor General of India reproduced below:

Gist of important instructions for timely completion of audit of Annual Accounts of PSUs under Section 619(4) of the Companies Act, 1956

- Before the start of accounts audit MsAB may have interaction with Management and Statutory Auditors to draw a time bound plan to complete the audit of accounts to enable company to hold AGM in time.
- Time schedule for finalisation of accounts may be fixed in such a way that audit is completed and approved audit comments issued within six weeks of the receipt of certified accounts from the Management (including 7 days for examination of draft comments by Headquarters (CAG office) before the proposed date of AGM).
- Directions \ sub-directions under Section 619(3) (a) of the Companies Act, 1956 may be issued to the Statutory Auditors \ Branch auditors' immediately on receipt of appointment letter of auditors so that the auditors can submit their report well in time.

- Half margins may be issued by the head of the Audit party i.e. SAO \ AO to the local management \ Statutory Auditors and provisional comments by Group Officer to the Top management and the Statutory Auditor.
- After receipt of reply to the provisional comments from the Management \ Statutory Auditor the decision to include it as draft comment is taken with the approval of MAB.
- In respect of multi Unit Company or big PSUs, audit of annual accounts can be started on receipt of copy of annual accounts more or less simultaneously along with the Statutory Auditors. However, the preliminary comments or audit observations on such accounts may be issued to the Management \ Statutory Auditors only after the certified accounts along with Audit Report are made available to MAB.
- In respect of PSUs where more than two MsAB are auditing the accounts, discussions may be held with the top management at Director (Finance)'s level by the MAB who is the Principal Auditor of the company. As such the MAB who is the sub auditor of may send his \ her observations, reply of the Management \ Auditor and his \ her further comments in an annotated form to the Principal MAB. In case it becomes necessary, the Sub Auditor MAB may hold discussions with the chief executive or head of Finance of local unit of PSU.
- In case of Multi unit PSUs, MAB who is the Principal Auditor of the company will have power to drop or retain the comments proposed by other MsAB. However, in such cases where there are no clear guidelines \ rules for dropping the comments the matter may be referred to the Headquarters.
- With a view to watching the progress of audit of annual accounts of PSUs, a fortnightly report in the prescribed format may be sent to Headquarters on 1st or 16th of every month from June to December and during the remaining period the report in the said format may be sent monthly along with the Monthly Progress Report.

4.11 Revision of Accounts

Headquarters circular letter No.58 CA IV \ 89-79 dated 04.02.1988 provides that suitable comments may be taken under section 619(4) of the Companies Act, 1956 in case the auditor does not disclose the full impact of revision of accounts in the notes \ auditors reports on the accounts.

However, it has been noticed that companies are giving only the net effect on the profitability of the Company of revisions made in the accounts, instead of giving the full or gross impact. In order that the reader of the accounts may gauge the extent of inaccuracies in the pre-revised accounts fully, it has been decided that where accounts are revised at the instance of CAG's audit, the gross or full impact of CAG's observations may be disclosed in the notes on account by the Company or auditor; else a comment may be made to bring out the full impact.

4.12 Review of Accounts

A review of accounts of financial review is prepared by the Inspecting Party at the time of audit of accounts of a Company under Section 619(4) of the Act. The review is intended to bring out in summarised form certain key data and financial highlights of the Company's operation and performance indicating trends for three consecutive years. It may also contain meaningful and significant comments. As the review has to cover comparative data for three consecutive years, this may be prepared only in respect of such companies which qualify for audit under Section 619(4) of the Act.

Principal Director of Commercial Audit with the prior approval of the Comptroller and Auditor General of India, issues Review of Accounts along with the comments under Section 619(4) of the Act.

Management's comments on any or all of the comments in the Review of Accounts are obtained by issuing the same to them before sending the draft review for Headquarters' approval.

Under the 'Financial Position' the Review gives the summary of Balance Sheet. If in the certified accounts the company gives the Balance Sheet in the vertical form, 'Financial Position' shown in the Review may be given in horizontal form. But where the company is giving Balance Sheet in horizontal form, the review may give the summary of the Balance Sheet under the heading 'Financial Position' in the vertical form.

Only those sub-details may be given in the summary Balance Sheet and also elsewhere in the Review if on that detail a comment is made. Other details of breakup need not be given.

4.13 After the Audit

(a) Performance appraisal of Statutory Auditors

Statutory Auditors may be asked to submit the report under Section 619(3) of the Companies Act, 1956 within twenty one days of the certification of the account of the

Company and in case the report is not received in time, the delay may be construed for poor performance of the auditor.

During meetings with the Statutory Auditors and the management of the Company for deciding the schedule of preparation and audit of annual accounts, the importance of Statutory Auditors submitting replies within the time schedule fixed may be stressed, so that the comments on the accounts can be finalised within time. In case replies from auditors are delayed, such delay in reply submission may be construed as poor performance of the auditors while evaluating their work.

(b) Performance of Auditors

An auditor of a company can be reappointed subject to the firm's performance during the audit of the company for the previous year is adjudged as satisfactory by the PDCA \ AG concerned.

The performance report of the auditors of PSUs has to be forwarded to C & AG's office in the prescribed format while forwarding the Draft Comments \ Nil Comments \ Non-Review Certificate under Section 619(4) of the Companies Act, 1956.

Comptroller and Auditor General of India's Circular No. CA.V \ 30-2003 \ 379 dated 21.07.2003 is reproduced below:

As per policy for appointment of auditors of Government Companies, an auditor of a company can be appointed \ reappointed for a term of 4 consecutive years subject to the firm's performance during the audit of the company for the previous year is adjudged as satisfactory by the PDCA \ AG concerned. It is, therefore requested that the performance report of the auditors of the PSUs may be forwarded to CA V Section in the prescribed format while forwarding the Draft Comments \ Nil Comments \ Non-Review Certificate to this office (CA.II \ CA.III Section) under Section 619(4) of the Companies Act, 1956.

Cases of un-satisfactory performances in detail may please be sent separately as per procedure prescribed vide this office letter no. CA.V \ FRM \ WKSP \ 98-99 dated 18.08.1998 reproduced below:

“It has been decided that in future the following procedure may be followed by all MABs \ AGs in case of unsatisfactory performance of the auditors:

1. Wherever the MsAB \ AGs consider the performance of the auditors as unsatisfactory they may intimate it at the time of sending the draft comments to this office. Simultaneously they may also issue a show cause notice to the auditor(s) concerned,

- spelling out the various reasons \ lapses on account of which the performance of the auditors is proposed to be considered as unsatisfactory. The auditors may also be asked to send their explanation \ reply within two weeks. They may also be given an opportunity for personal hearing in case they desire to be heard in person.
2. After the receipt of the reply from the auditors the MABs \ AGs may again make an assessment of the performance of the auditors in the light of the explanation furnished and in case they are not satisfied with such explanations, the MABs \ AGs may report the matter to the Head Quarters in the prescribed format within one month of sending the draft comments to that office.
 3. The report may invariably be sent along with the following documents:
 - (a) copy of the show cause notice issued to the auditors
 - (b) copy of the reply received from the auditors to show cause notice
 - (c) detailed note in the form of speaking order of MAB \ AG indicating the reasons and justification for considering the performance of the statutory auditors as adverse

4.14 General Advice sought by Statutory Auditors

Under Section 619(3) (a), CAG has the power to direct the manner in which the accounts shall be audited and to give instructions in regard to any matter relating to the performance of the Auditors' functions. Accordingly, MsAB have been authorised to issue sub-directions to auditors. If MsAB \ AGs may be approached by any of the auditors for advice on any problem area during the course of audit, MAB \ AG may seek the query in writing and furnish the reply also in writing.

ANNEXURE II
TITLE SHEET OF THE INSPECTION REPORT
(TO BE SUBMITTED WITH EVERY INSPECTION REPORT)
PART 'A'

GENERAL:

1. Name of concern audited :
2. Names of party personnel
a) Senior Audit Officer :
b) Assistant Audit Officer :
c) Section Officer :
d) Sr. Auditor :
3. Period of audit \ year of accounts :
4. Months selected for audit :
5. Duration of audit (extension granted may be shown separately) :
6. Whether any change in the time allotted is necessary for further audit? If so, justification therefor :
7. Number of potential draft paras included in Part I-B of the Inspection Report (Reference to Para No. and title may be given) :
8. Paragraphs, if any, to be reported to higher authorities in advance and \ or to be brought to the special notice of the headquarters :
9. Whether all items required to be checked generally and also as per Manual of Commercial Audit (Part-II) relating to this Company \ Corporation or codified elsewhere have been checked. The items, if any, left unchecked may be enumerated with reasons therefor. Whether these items can wait for the next audit or special audit party is sent? :
10. General remarks, if any :
11. Actual date of submission of report \ comments :

PART 'B'
(For Phase Audit)

1. Whether parts I (A & B) and II of the Inspection Report :
has been discussed with the Head of the undertaking
inspected.
2. Whether Statement-I showing allocation of duties among :
the members of the party has been enclosed.
3. Whether the quantum prescribed for audit was :
completed? Are there any points which could not be fully
investigated during the current audit and which require
investigation in next audit? If so, these may be listed out
with reasons for not checking them during the course of
current audit indicating the records from which these
were checked during this audit and also the records from
which these may be checked in next audit.
4. (a) Whether a daily diary indicating the documents \ :
records checked by AAO \ SO, Sr. Ar. \ Ar. has
been maintained and submitted to headquarters?
(b) Whether any particular documents \ records or
registers were personally checked by the reviewing
officer? If so, details thereof may be furnished to
Headquarters.
5. Whether a statement of persistent irregularities has been :
attached.
6. Whether introductory para and the chapter for the :
technical manual have been prepared"? If the manual has
already been prepared, whether any change therein is
required? If so, whether the same has been indicated?
7. Whether there has been delay on the part of management :
in replying to the audit queries for more than 7 days in
case of resident audit, 3 days in case of other audit? If so,
in how many cases?
8. Whether all the points indicated in the Register of :
Important points and points marked for next audit by the
headquarters section have been reviewed and action taken
thereon?
9. Whether the present position of the outstanding paras of
previous Inspection reports was annexed by LAP \ RAP.
10. Indicate the position of outstanding paras in respect of :
Part-II as under

Period of Report (1)	No. of paras outstanding (2)	No. of paras settled (3)	Reasons for the paras remaining outstanding (4)
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PART 'C'

(For Accounts Audit)

1. List out the important items test checked & :
indicated there against if any comment has been
proposed (Yes \ No)
2. Whether the points raised in the draft comments :
have been discussed personally by the LAO with
the Head of the undertaking & whether the facts
mentioned therein have also been verified by
him?
3. Whether the draft comments proposed on the :
accounts of earlier years but dropped on the
assurance of the management to take suitable
action have been received from the coordination
Section.
4. Whether action taken as promised by
Management was verified by the LAO \ RAO.
5. Whether any change in the time allotment is :
necessary for future audits, if yes a detailed note
justifying the increase may be given separately?
6. A list of allocation of duty amongst all the party :
members to be attached along with a certificate
signed by all the members of the audit party that
duty assigned to him or her was completed as per
the prescribed quantum of checks.

PART 'D'

Assurance Memo (for transaction and accounts audit)

- (a) Whether all observations pointing out lapses in the implementation of systems and procedures and all weakness in the responsibility centers have been discussed and assurances obtained in regard to corrective measures for arresting potential risks. Enclose a list of such cases.
- (b) Whether all contested evidences have been conclusively handled with reference to the facts at the disposal of audit
- (c) Whether samples have been selected based on risk analysis or risk perception and that the evidence of such exercise is available on record.

LAO \ RAO

STATEMENT - I

Allocation of work

Sl. No	Name	Details of work	Signature

STATEMENT - II

Details of attendance of staff

Sl. No.	Name of the individual	Details of Programme place of audit	Period of Audit	No. of days absent	Leave sanctioned		Leave not sanctioned
					In advance	After spell	

Local Audit Officer \ Resident Audit Officer

STATEMENT - III

Name of the Supervising Officer \ AAO \ SO \ Sr. Auditor \ Auditor

Date-	Day and hour of attendance	Details of records and documents checked, extent of percentage of audit exercised on each item and by whom with reference to Statement - I

STATEMENT - IV

Names of Originators of each POM \ A.E.

Sl. No.	Title of POM \ A.E.	Name S \ Shri \ Smt	Designation

Local Audit Officer \ Resident Audit Officer

STATEMENT - V

Money value of objection

Sl. No	Names of the party members with designation	Paras money less than Rs.5,00,000	Initiated by each value of objection		Without monetary value	Paras dropped by DD	PDP marked by DD
			Between 5,00,000 & 10,00,000	Above 10,00,000			
1	2	3	4		5	6	7

Note:-1 1 to 5 may be filled by the Inspecting Officer and col.6 and 7 will be filled by Deputy Director, who approved the Report.

Senior Audit Officer (I)

Senior Audit Officer (Cord)

STATEMENT - VI

List showing records brought from Headquarters

Particulars of records etc.	Use put to

ANNEXURE TO TITLE SHEET

Results of Audit of Contracts

(Refer O.O. No.PDCA \ 5-17 \ 97-98 \ Vol.I \ 112 dated 15.7.97)

- A Name of RAP \ LAP
- B Company \ Unit audited
- C Period of audit
- D Date of audit
- E (I) Total no. of contracts awarded by the Company during the period of coverage of audit
- | Number of Contracts | Value | Status |
|------------------------------|-------|--------|
| 1. > Rs.10 crore | | |
| 2. Rs.5 crore to Rs.10 crore | | |
| 3. Rs.1 crore to Rs.5 crore | | |
| 4. Rs.50 lakh to Rs.1 crore | | |
- (II) No. of contracts reviewed with money value and details
- (III) Contracts awarded in earlier period which are in process during the period of coverage of audit.

DESCRIPTION FOR HIGHER VALUE CONTRACTS

- 1 Basis of tender Single \ LTE \ Open :
- 2 Scheduled date of completion :
- 3 Anticipated date of completion :
- 4 Estimated cost :
- 5 Contract value :
- 6 Terms of payment :
- 7 Cum payments made :
- 8 Advance pending adjustment when paid \ amount :
- 9 Security deposit :
- 10 Penalty for delay :
- 11 Revised estimate
- | DATE | PAYMENT |
|------|---------|
|------|---------|
- 12 Final cost :
- 13 Date of completion :

F. Contract audit work assigned to each member of the party.

Name of the party member	Designation	Reference: to Sl. No. in the list of E(i) and E(ii)

G. Results of Audit

(a) Cases where half-margins were issued to the Company

Reference to Sl. No. And the contract as mentioned in the list vide E(i) and E(ii)	Reference: to Audit Enquiry issued	Reference to Draft Inspection Report Para No.	Name, designation & signature of party members who reviewed the relevant file

(b) Cases where contract files were reviewed but no half margins issued.

Reference to Sl. No. of contract (as mentioned in list vide E(i) & (ii))	Name, Designation & Signature of party members who reviewed the relevant file.
--	--

(c) Reference to contracts not reviewed during this spell but included in (E) above

Note: Total No. of contracts mentioned in (a), (b), (c) above may match the number of files mentioned against E(i) & E(ii).

Date:
Station:

Signature of LAO \ RAO
Name:

Sr. Audit Officer (Co-ordn.)

Director \ Deputy Director

INFORMATION \ DETAILS REGARDING CASES OF MISAPPROPRIATION THEFT,
FRAUD, EMBEZZLEMENT OF CASH \ STORES \ STOCK

- i) Cases pertaining to theft, misappropriation \ embezzlement of cash and fraud.
- ii) Losses to Stores \ stocks on account of natural calamities.

Senior Audit Officer (I)

Sub: Regularity Audit Report

Ref: No. PDCA \ DDCA \ 1999-2000 \ 101 Dt. 21.03.2000

As per the orders of PDCA, vide his reference cited, "Regularity Audit", was conducted as per norms prescribed, during the course of Transaction audit on the accounts of -----
----- for the period -----
-----The following remarks are offered.

Submitted please

Senior Audit Officer

Director \ Dy. Director

CHAPTER 5

SYNERGY BETWEEN ORGANISATIONS OF CAG & CVC

The issue of synergy between the organisations of CAG & CVC has been discussed from time to time in order to strengthen the forces against corruption.

In this connection, Central Vigilance Commissioner has issued instruction No.001 \ VGL \ 5 dated 8th May 2001 on System Improvement to fight corruption through better synergy between CAG & CVC.

The audit reports of the Comptroller and Auditor General many a time reveal not only administrative and financial irregularities but also actual cases of corruption. The CAG reports are generally well documented and would be useful in bringing the corrupt public servants to book.

There is a need for introducing a system for prompt follow up action in the cases of corruption brought out by the CAG in its audit reports. The Public Accounts Committee and the Committee on Public Undertakings which scrutinize the CAG reports may not have the time to scrutinize all the reports and all the paragraphs. At the same time, the valuable information available through the CAG audit reports in the form of documented cases of corruption call for prompt action on the part of the disciplinary authorities.

It is therefore decided that with immediate effect the CVOs in all the organisations must scrutinize the CAG audit reports issued after the date of this circular to check whether any cases of corruption are revealed in them. In all such cases immediate action must be initiated against the public servants concerned through the standard practice of referring vigilance cases to CVC.

The Commission had also been in correspondence with the CAG on this subject. It has been agreed that all serious cases of malpractices reported by CAG which are perceived to have a vigilance angle would also be sent to the Commission (by CAG's office) for examination and follow up action. On receiving such references from CAG, the CVC would take follow up action with the disciplinary authorities. In this way, it will be ensured that the cases of corruption and issues having a vigilance angle are not lost sight of and there is effective synergy between CAG and CVC to strengthen the system to fight corruption.

CHAPTER 6

GUIDELINES ON AUDIT OF CONTRACTS AND AGREEMENTS

6.1 Contract Audit

Headquarters has been issuing instructions from time to time for conducting of audit of high value contracts. For this purpose, the Local Audit Parties have to collect appropriate information on contracts entered into by the audited entity during the period under audit. For the purpose of conducting the contracts audit, audit can be conducted in various phases where the duration of the contract spreads beyond the period of audit year.

Phase-I: During this phase, the audited entity will examine the system of obtaining tenders, classification, short listing of tenderers, criteria adopted for evaluation and order placement. In all these checks, the concept of quality has to be observed and the compliance thereof has to be checked. Normally for classifying or declassifying any tenderer, the major yard stick shall be the technical and financial capabilities and potential of each of the tenderers. On completion of this techno-economic analysis and short listing of the tenderers, the only other criterion for award of contract at the time of opening of the price bid shall be the lowest offer. In this regard, the Central Vigilance Commission has also issued instructions from time to time which are binding on almost all Central and State Governments organizations.

Phase II: In Phase II, any variation \ deviation \ abandonment of the contracts shall be examined critically by audit for suitable inclusion in the Inspection Report.

Phase III: Post implementation, effectiveness of the contracts awarded has to be examined during this phase by audit.

In all these efforts, audit shall not play any advisory role, but the intention of audit shall be to point out mistakes, excess payments or any other aspects contributing to losses or wastage of scarce resources enabling the management to take timely action for minimization of such losses. Accordingly, the Local Audit Party shall conduct the audit of high value contracts with emphasis on relevance and timely issue of audit observations.

The following points are to be seen while conducting the Audit of Contracts:

- The terms of contract are to be precise and definite and there is no room for ambiguity or misconstruction therein.

- As far as possible, legal and financial advice is taken while drafting contracts.
- Standard forms of contract may be adopted, wherever possible.
- The terms of contract once entered into shall not be materially altered without the prior consent of competent authority.
- In selecting the tender to be accepted, the financial status of the individual and firms are taken into consideration in addition to all other relevant factors
- See, whether, tenders have been invited and when the lowest tender is not accepted, the reasons therefor are recorded
- It may be seen that, no contract involving an uncertain or indefinite liability or any condition of an unusual character is entered into without the prior consent of the competent financial authority
- It is ensured that in cases where formal written contract is not made, the orders for suppliers are not placed without any written agreement regarding price.
- It may be ensured that, provision must be made for safe-guarding the properties entrusted to a contractor.
- It may be ensured that all payments are made in accordance with the terms of the contract. Check the rates charged \ claimed in the bill with the terms of the contract keeping in mind the specifications.
- Examine the rates fixed for extra items and ascertain the reasons as to whether these could have been settled at the time the tender was called for Where the Company supplies materials, examine the stock account and utilisation of material

Audit Checks

While conducting the audit of contracts, it is essential that the contracts of large money value may be invariably subjected to general scrutiny with reference to general principles of contracting laid down in General Financial Rules and would also include checking of

- Deviations, if any, from the terms of contract originally agreed
- Evidence commonality of interest between the company officials or company's agents and other contracting party.
- Whether standing contracts are periodically reviewed with reference to prevailing rates
- Escalation in cost plus contracts

- Ex-gratia payments whether or not covered under an agreement
- Unusual contractual conditions, if any.

6.2 Processing of tenders:

While checking the processing of tenders it must be ensured that the terms of tenders are correctly framed, tenders are properly invited and evaluated and that the process has not been manipulated to the advantage of any particular bidder or has not resulted in re-tendering of the contract. The following points must also be seen in this connection.

- total requirement has not been split into tenders of small value to avoid sanction of the higher authority and that basic minimum press coverage is given
- limited tenders have been called without sufficient ground
- single tender has not been accepted or negotiated without sufficient reasons and without the sanction of the competent authority
- all tenders have been received without delay, opened on due date, properly numbered and authenticated;
- comparative statement has been prepared and common conditions drawn and brought to a comparable basis and that no late tenders have been included therein
- difference between the accepted tender and the lowest tender is not large and that reasons for rejection of the lowest tender are genuine and supported by adequate evidence and duly recorded.
- tenderer whose offer has been accepted has not been allowed any special privilege which will give him \ her any advantage over the other tenderers
- that accepted price quote is well within the estimated value of the contracts and in any case not beyond the funds committed for the project \ purchase etc.

a) Acceptance of tenders

In scrutinising the acceptance of tenders it may be seen

- the quantity and rates of supplies are specified clearly and that the prices quoted therein are firm- special attention may be paid during the audit to provisional rates and actual application of price variation clause
- important clause viz. inspection of stores, date and place of delivery, dispatch instructions and the name of the consignee etc. are brought out without any ambiguity

- if the acceptance of tender provides for payment to a party other than the contracting firm, a power of attorney is already registered on the books of the company
- signatories to the contract are competent and that they are specifically authorised to do so;
- provisions for payment of sales tax, excise \ custom duty are clearly spelt out and in conformity with the directions given by the Government \ Accountants' General Department concerned \ Bureau of Public Enterprises
- terms of high sea sale and provisions relating to risk and costs are not detrimental to the interest of the company

b) Payments:

All payments under contracts may be checked in respect of

- correctness of rates paid with reference to agreed rates particularly where contract specified different rates at different dates or in different situations (in such cases dates of delivery \ despatch may be independently verified)
- Pre \ post manufacture inspections
- authenticity and reasonability of transportation and insurance expenses
- payment of taxes and other duties as well as escalation claims on account of increase in rates, taxes \ duties etc.
- discrepancies \ deficiencies noticed in receipt of consignments and particularly where advance payments have been made and
- Delivery of stores \ supplies as per the schedule laid down in the contract.
- Imposition of liquidated damages for delayed supplies

c) Contracts for Civil Works

- cost estimates are framed on the basis of currently prevailing prices \ rates of material and contractor's quotes
- Consultants \ architects are not hired on a percentage fee basis. If there are cost escalations, it must be critically examined to identify unwarranted, non-utilitarian changes in specifications \ designs and extra items cost analysed
- adequate provisions exist in the contract to ensure quality of construction through various testing procedures for assessing load bearing capacity of soil, its cohesiveness

and compressibility, permeability and strength of concrete and quality of construction material used etc.

- standard contract conditions and forms as have been prescribed by Bureau of Public Enterprises \ ASRTU \ SEBs etc. as the case may be are being used.
- Contractual provisions regarding escalations to be paid, time extensions, payment of extra quantities and new items, supply of stores and recoveries to be effected thereagainst, termination procedures and arbitration of disputes may be critically examined

d) Quantum of checks

Following table indicates the quantum of check to be made during the course of audit of contracts \ review of accounts of purchases \ projects \ works \ agreements. The percentages given below are only suggestive and may be altered depending on the unit audited, personnel and party days available etc.:

Value range	Audit by			Review by	
	Ar. \ Sr.Ar.	AAO	AO \ SAO	AAO	AO \ SAO
	%	%	%	%	%
Purchase orders					
(a) less than 10 lakh - 5%	80	20		10	-
(b) 10-50 lakh- 50%		75	25		10
(c) 50 lakh -1 crore - 100%		75	25		10
(d) 1 - 5 crore - 100%		25	75		10
(e) above 5 crore - 100%			100		-
Sales Orders					
(a) less than 5 lakh - 5%	80	20		10	-
(b) 5-10 lakh - 10%	50	50		10	10
(c) 10 -25 lakh - 10%		75	25		10
(d) 25 – 50 lakh - 100%		50	50		10
(e) above 50 lakh - 100%			100		
Works Contract					
(a) less than 10 lakh - 5%	80	20		10	
(b) 10-50 lakh- 50%		75	25		10
(c) 50 lakh -1 crore - 100%		50	50		10
(d) 1 - 5 crore - 100%		75	25		10
(e) 5 - 10 crore - 100%		25	75		10
(f) above 10 crore - 100%			100		

CHAPTER 7

Intosai & Asosai Guidelines for Dealing with Fraud and Corruption

PREFACE

In its 31st meeting held in Manila in 24 October 2002, the Governing Board of ASOSAI established an adhoc Working Group and a core Member Task Force to develop Regional Guidelines for dealing with fraud and corruption. While the Working Group comprised nominees of the SAIs of Bangladesh, India, Japan, Korea, Malaysia, Nepal, Pakistan, Philippines, Thailand and Turkey, the SAI of India, Japan, Pakistan and Philippines were represented on the Core Member Task Force.

The work for developing the Guidelines was initiated by the SAI of Japan by conducting a questionnaire-based survey on existing approaches and practices followed by member SAIs. The survey was conducted from December 2002 to January 2003.

The SAI of Japan also developed a Base Document for the Guidelines taking into consideration the responses to the survey questionnaire and related professional material. A Working Draft of the Guidelines was developed by the Working Group during a two week Workshop held in Tokyo from 12th to 23rd May 2003. The Working Draft was refined into the First Exposure Draft of the ASOSAI Audit Guidelines on Fraud and Corruption by the Core Member Task Force. The First Exposure Draft was sent to all the Governing Board members for their comments on 23rd July 2003.

Taking into consideration the comments of the Governing Board members on the First Exposure Draft, the Core Member Task Force prepared a Second Exposure Draft, which was sent to all the ASOSAI members as advance information for the 9th ASOSAI Assembly on 9th October 2003. After that, further efforts were made by the Core Member Task Force to refine the Draft into the Final Draft of the ASOSAI Guidelines for Dealing with Fraud and Corruption.

The Final Draft was discussed and supported by the Training Committee on 19th October 2003 and approved at the 32nd Governing Board meeting on 20th October 2003 and the 9th Assembly on 22nd October 2003.

In the ASOSAI Guidelines for Dealing with Fraud and Corruption, 30 specific audit guidelines on fraud and corruption were included. Each guideline referred to an auditing principle \ standard and guidance prescribed by the INTOSAI's auditing standards. The

guidelines also include a chapter dealing with understanding fraud and corruption by auditors of the member SAIs.

The ASOSAI Guidelines are expected to be used as the model for each SAI to develop its own Guidelines. Accordingly, each SAI may modify the Guidelines applicable to each country. The Guidelines will be greatly beneficial to auditors of member SAIs when they deal with fraud and corruption cases.

Introduction

BACKGROUND

1.1 Fraud and corruption have increasingly become important concerns for countries around the world. The role of audit in addressing this concern has come under critical scrutiny. There is an increasing expectation that SAIs may, through concerted action, play an effective role in promoting a culture that values honesty, responsibility, and accountability in the exercise of authority and utilization of national resources.

1.2 This expectation is embodied in the INTOSAI Auditing Standards in the following words:

...Auditors need to be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results, which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity. (Paragraph 2.2.41, General Standards in Government Auditing)

1.3 The XVI INCOSAI held in Uruguay in 1998 discussed "the Role of SAIs in Preventing and Detecting Fraud and Corruption" as one of its themes signifying a growing awareness of the INTOSAI to a problem that affects in varying degrees the individual member countries and collectively poses a challenge for the auditing community.

1.4 The Uruguay INCOSAI agreed that corruption in government results in waste of resources and reduces economic growth and the quality of life, and it undermines the credibility of state institutions and reduces their effectiveness. A realization was flagged that a strong correlation apparently exists between corruption and the weakening of state institutions. An understanding emerged that corruption often links up to the socioeconomic environment of the population, like social injustice, poverty, and violence, and that a country's traditions, principles, and values influence the nature of corruption. While

registering the gravity of the challenge posed by corruption, the INTOSAI community also observed that it is difficult to detect many acts of corruption and to estimate their financial impact as the loss does not necessarily get reported in the financial statements.

1.5 The Uruguay INCOSAI adopted the following Accords:

SAIs agree that fraud and corruption are significant problems affecting all countries in varying degrees and that the SAIs can and may endeavour to create an environment that is unfavourable to fraud and corruption. As provided in the Lima Declaration adopted by INTOSAI in 1977, SAIs agreed that they may be independent and have adequate mandates that enable them to effectively contribute to the fight against fraud and corruption. It was also agreed that, where possible, SAIs may:

1. *seek an adequate level of financial and operative independence and breadth of audit coverage;*
2. *Take a more active role in evaluating the efficiency and effectiveness of financial and internal control systems and aggressively follow up on SIIs recommendations;*
3. *Focus audit strategy more on areas and operations prone to fraud and corruption by developing effective high risk indicators for fraud;*
4. *Establish an effective means for the public dissemination of audit reports and relevant information including, establishing good relationship with the media;*
5. *Produce relevant audit reports that are understandable and user friendly;*
6. *Consider a closer cooperation and appropriate exchange of information with other national and international bodies fighting corruption;*
7. *Intensify the exchange of experiences on fraud and corruption with other SAIs;*
8. *Encourage the establishment of personnel management procedures for the public service that selects, retains, and motivates honest, competent employees;*
9. *Encourage the establishment of guidance for financial disclosure by public servants and monitor compliance as part of the ongoing audit process;*
10. *Use the INTOSAI Code of Ethics to promote higher ethical standards and a Code of ethics for the public service;*
11. *Consider the establishment of a well publicized means to receive and process information from the public on perceived irregularities; and*
12. *continue work regarding fraud and corruption through INTOSAI's existing committees and working groups; for example the Auditing Standards Committee will consider these issues as part of developing implementation guidance as part of a broader standard framework.*

1.6 In furtherance of the INTOSAI framework, ASOSAI initiated in December 2001 a project for strengthening the Regional Training Capability which focuses on the improving audit skills for fraud detection. One of the major focus areas of the project is the development of Regional Guidelines on fraud and corruption, an initiative that received formal sponsorship of the ASOSAI in the meeting of the Governing Board held in Manila in October 2002.

1.7 It is hoped that these Guidelines will become a useful reference and guidance material for the SAls of the region and would be instrumental in sensitizing auditors to concerns arising from fraud and corruption and would assist them in taking timely and appropriate actions.

DEFINITIONS AND CORRELATION

1.8 Chapter II of the Guidelines, which deals with conceptual issues related to fraud and corruption, lists some of the many general and specific definitions of fraud and corruption. The multiplicity of definitions underscores the various ways in which fraud and corruption are perceived and conceptualized. In their broadest connotation the terms fraud and corruption can be defined as follows:

FRAUD involves deliberate misrepresentation of facts and \ or significant information to obtain undue or illegal financial advantage.

CORRUPTION involves effort to influence and \ or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

1.9 Fraud is most likely to involve deliberate misrepresentation of information that is recorded and summarized by an entity; its impact can be compared to an accounting error and would involve issues such as measurement, occurrence and disclosure. Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover \ falsify \ misdirect entity records and reporting. The efforts to misrepresent may involve the management itself - an aspect that has received considerable attention in the wake of major corporate failures. When management gets involved in the perpetration of fraud, the activity assumes the proportion or the additional bearing of corruption. Fraud and corruption are therefore interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption and can be perpetrated by an individual or a small group. The problem

which corruption poses for audit is that it links up as a concept with the acts of bribery, it is possible to conceive *of* situations where bribery may have a direct impact on financial statements- eg: where a corporation pays an influential decision-maker a bribe to secure a contract. In such situations the issue of proper disclosure is involved because the corrupt practice of illegal payment \ *expense* is normally covered up through an .accounting or reporting fraud. However, in many instances corruption does not necessarily result into transactions that are recorded and reported by the entity. This especially applies to situations where a position of authority or discretion available under rules is enmeshed by an official in the public sector. Such corruption, which because of its widespread prevalence, may be most responsible for undermining the social fabric and the credibility and functioning of such institutions, does not normally get reflected in information that comes in the purview of audit.

1.10 The Guidelines therefore propose that while fraud and corruption may be perceived independently for their numerous implications, the auditors may be well aware of the complex correlation between the two. In the Guidelines the two will be treated in combination, but attention would be drawn to possibilities of separate treatment, wherever the situation so warrants.

RESPONSIBILITIES FOR PREVENTION OF FRAUD AND CORRUPTION

1.11. It is an essential function of Management to establish control \ safeguard assets of the entity. It is also a primary responsibility of management to meticulously record all material transactions and fairly report the results of the operations of the entity. The primary responsibility for establishing an environment that prevents valuable entity assets from being lost through fraud and corruption rests with the management. This responsibility includes the taking of remedial steps including disciplinary \ *punitive* legal action as the circumstances may warrant and also includes the obligation to bring about periodical changes in policies and procedures to ensure that similar cases do not recur.

1.12 This reaffirmation and unambiguous recognition of the primary role and responsibility of the management, however does not relieve the auditor of his responsibility to provide a credible assurance within his SAI's audit mandate about the actions taken by the management or those that may materially affect the picture that emerges from the audited financial reports.

This responsibility covers situations where the financial reports or other auditable record may be materially misrepresented and the misrepresentation may or may not have taken place with the knowledge or involvement of the management. This responsibility of the Auditor is the extension of his responsibility, to provide assurance about the audited entity and its financial statements and his obligation to make the management (either in each entity individually or through reports to the legislature) aware of any weaknesses in the design or operation of the accounting and internal control systems which are reviewed by him in the discharge of his professional duties. Although auditors are not primarily responsible for preventing fraud and corruption by conducting an audit that is sensitive to the risk of fraud and corruption, the auditors can make a proactive contribution to prevent fraud and corruption.

Adult MANDATE

1.13 While the legislative framework and mandate determine the policies and audit guidance adopted by each SAI, these Guidelines recommend that in its interpretation of its primary audit mandate, SAI may be cognizant that public perceptions about fraud and corruption pose a serious risk to the credibility of its findings in individual audits and its national responsibility and role. Depending on their peculiar circumstances, the SAIs may actively consider adopting a formal policy or strategy for deterring fraud and corruption in the organizations covered in their audit jurisdiction. These Guidelines are based on awareness that SAIs may have an adequate level of mandate to deal with cases of fraud and corruption in planning and conducting an audit and that this mandate is usually inherent in the audit mandate. However, if SAI feels constrained in its investigation of suspect fraud or corruption cases in the performance of its normal audit work, it may seek reinforcement of its audit mandate. This reinforcement could be in the shape of a regulation specifying that the SAI would be notified in all cases where fraud \ *corruption* are suspected or reported.

II UNDERSTANDING FRAUD AND CORRUPTION

2.1 Fraud and corruption includes both those committed by the government employees of management of an audited entity (internal fraud and corruption), and those perpetrated against the audited entity by outside individuals or groups (external fraud and corruption). Internal fraud and corruption may result in benefits being obtained either from the organization (e.g., the theft of cash \ assets, falsification of payroll data) *or* from a third party

(e.g., the theft of patents property). The latter may not result in immediate loss to the audited entity, but it may result in liability for restitution where positions of trust have been abused. Examples *of* external fraud and corruption include making fraudulent claims *for* government grants and benefit or suppliers issuing false or duplicate invoices.

2.2 Whereas the loss to the audited entity is usually fairly apparent in cases *of* "fraud" as defined above, in the case of "corruption" the corrupt government employee may benefit from the act, but there may *not* be any loss to the audited entity or effect on financial information. Both fraud and corruption are by definition without proper authority and involve breach *of* trust and therefore irregular.

2.3 There are many general and technical definitions of fraud. In most countries, fraud and corruption are legal concepts, although they are referred to in various ways. One of the factors distinguishing fraud from error is whether the underlying cause is intentional or unintentional, although intent is often difficult to determine, particularly in matters involving the use of judgment.

DEFINITIONS OF FRAUD

2.4 **XVI INCOSAI URUGUAY 1998** viewed fraud as a legal concept, which involves acts *of* deceit, trickery, concealment, or breach of confidence that are used to gain some unfair or dishonest advantage; an unlawful interaction between two entities, where one party intentionally deceives the other through the means of false representation in order to gain illicit and unjust advantage.

2.5 According to SPASAI fraud Guide. "Fraud is a generic term which embraces all the means that human ingenuity can devise, which are resorted to by one individual to get an advantage over another by false representations. There is no finite rule to define fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated.

2.6 Fraud, as it is commonly understood means dishonesty in the form *of* an intentional deception or a willful misrepresentation of a material fact. Lying, the willful telling *of* an untruth, and cheating, the gaining or an unfair or unjust advantage over another could also be used to further define the word fraud because both denote intention or willingness to deceive,"

2.7 The Canadian Audit Guide 21 on Fraud Awareness refers to fraud as an action where there is a loss of a valuable resource resulting from a false representation made knowingly,

without belief in its truth. Such actions could result in charges being laid under various applicable Canadian laws.

2.8 According to the National Audit Office of UK, fraud involves the use of deception to obtain an unjust or illegal financial advantage as well as intentional misstatements in, or omissions of amounts or disclosures from, an entity's accounting records or financial statements. It also includes theft, whether or not accompanied by misstatements of accounting records or financial statements.

2.9 The Fraud Examiners Manual views fraud as any intentional or deliberate act to deprive another of property or money by guilt, deception or other unfair means. Similarly International Standard of Auditing (240) also treats fraud as an intentional act by one or more individuals' amongst management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

2.10 Essentially, fraud refers to intentional misrepresentation of financial information by one or more individual among the management, employees or third parties. It involves the use of deception to obtain an illegal financial advantage.

2.11 Fraud may involve:

- Manipulation, falsification or alteration of records or documents.
- Misappropriation \ misapplication of assets.
- Suppression or omission of the effects of transactions from records or documents.
- Recording of transaction without substances.
- Misapplication of accounting policies.

ELEMENTS OF FRAUD

2.12 The basic elements of fraud can be summarized as follows:

- There must be at least two parties to the fraud, namely the perpetrator and the party who was or could have been harmed by the fraud, otherwise known as the victim;
- A *material* omission or false representation must be made knowingly by the perpetrator;
- There must be intent by the perpetrator that the false representation be acted upon by the victim
- The victim must have the legal right to rely on the representation
- There must be either actual injury or risk of injury to the victim as a result of the

reliance.

- There generally is an attempt to camouflage; and
- Fraud involves betrayal of trust.

DEFINITIONS OF CORRUPTION

2.13 Corruption is a complex issue. While its roots are grounded in a country's particular social and cultural history, political and economic development, bureaucratic traditions and policies, one can generalize to state that corruption tends to flourish when institutions are weak and economic policies distort the marketplace.

2.14 The following definition of corruption is provided by the Asian Development Bank in the Anti-corruption Policy: "Corruption involves behaviour on the part of officials in the public and the private sectors, in which they improperly and unlawfully enrich themselves and \ or those close to them or induce others to do so, by misusing the position in which they are placed."

2.15 The Anti-Corruption Act of the Republic of Korea defines the term "act of corruption" as the act of 'any public official's abusing his position or authority or violating laws and regulations in connection with his duties to seek gains for himself or any third party.

2.16 The Chartered Institute of Public Finance and Accountancy of UK defines corruption as the offering, giving soliciting or accepting of an inducement or reward, which may influence the action of any person. That is, an individual receives a bribe as a reward or incentive for action or' inaction contrary to the proper conduct of his or her duties, for the direct benefit of a third party.

2.17 The World Bank defines corruption as the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance.

2.18 Klitgaard (1996) developed a model to explain the dynamics of corruption.

$$\text{Corruption} = \text{Monopoly power} + \text{Discretion} - \text{Accountability}$$

ELEMENTS OF CORRUPTION

2.19 An act of corruption would comprise one or more of the following elements:

- There must be at least two parties to an act of corruption, namely the person who offers the reward or inducement and the party accepting it;

- There must be misuse of office or position of authority for private gain;
- There is either an offer and \ or acceptance of inducements;
- An attempt to solicit an offer of inducement or reward as benefit for performance of an official act;
- Any act through which public or entity property is dishonestly misappropriated;
- There may be an attempt to camouflage; and
- Corruption involves breach of trust.

FACTORS THAT INFLUENCE FRAUD AND CORRUPTION

2.20 It is useful for auditors to understand the motivational and organizational \ environmental factors of fraud and corruption. The presence of these factors does not necessarily mean that fraud and corruption have occurred. Rather, awareness of their presence may increase the auditor's sensitivity to that possibility. The key factors generally associated with fraud and corruptions are as follows:

MOTIVATIONAL FACTORS

2.21 Motivation and opportunity are the elements that generally underlie the commission of fraud and corruption. These could take the form of:

- Economic motivation- financial need or gain is the most common motivation for fraud and corruption. Often, persons convicted of fraud and corruption, complain that they had unbearable financial problems for which there was no legitimate recourse.
- Greed - persons with power and authority often commit fraud and corruption because they are motivated by greed.
- Prestige or recognition - persons may feel they deserve more prestige or more recognition. These persons are often motivated by jealousy, revenge, anger, or pride. They often believe that they are superior to others, that they are shrewd enough to confound and confuse others and can commit fraud and corruption without being discovered or detected.
- Moral Superiority - persons may also be motivated by a cause or values that they feel are morally superior to those of the victim, or the government in this case.

ORGANIZATIONAL AND ENVIRONMENTAL FACTORS

2.22 The organizational atmosphere and its perception play a major causative role in perpetration of fraud and corruption.

2.23 Where management is perceived as insensitive, insecure, impulsive or too strict, ill-treats employees and judges performance either on short term results or without considering operational constraints, the disgruntlement in the employee is likely to result in instances of fraud and corruption.

2.24 Systems and procedures adopted in organisations and organisational policies are particularly important. An organisation in which the corporate policies are unclear, there is inadequate internal control; excessive regulations, red-tapism; inadequate accountability or history of programme abuse is likely to have more instances of fraud and corruption.

2:25 understanding of the organisational atmosphere will enable an auditor to assess whether there is a higher risk of fraud and corruption in the entity and planning of the audit could be suitably modified. Poor management structure and policies are indicated by a high turnover of employees, absenteeism, and poor documentation, low awareness of regulatory requirements and lack of transparency in reward systems.

2.26 It is important for the auditor to also understand that very often the perpetrator of fraud and corruption rationalises his actions with some kind of justification. For instance an employee accused of fraud and corruption is likely to rationalise his action by saying or believing that his low pay justifies the action or since everybody is doing that he is also well within his right to do it; while a contractor could justify his acts of fraud and corruption as a cost of doing business or problems of securing contract from a government entity.

TYPES OF FRAUD AND CORRUPTION

2.27 Some of the most typical fraud and corruption are as follows:

- *Bribery* is the giving, receiving, offering or soliciting of any "thing of value" in order to influence a person in the performance of, or failure to perform, his \ her duties.
- *False Statements and False Claims* occur whenever a person knowingly and willfully falsifies a material fact or makes a false or fictitious representation or files a false or fictitious claim that results in economic or financial loss to the person to whom the false representation has been made.
- *Embezzlement* is the fraudulent conversion of personal property by a person in possession of that property where the possession was obtained pursuant to a trust relationship. Examples of means to conceal embezzlement are the use of kiting or lapping scheme.
- *Kiting* occurs when a person withdraws cash from a bank on checks deposited by a person for which the cash has not yet been collected by the bank. To conceal the fraud, the person continuously writes checks against non-existent account balances

("kites" checks from bank to bank).

- *Lapping* occurs when a person steals cash from payment of accounts receivable, and continuously uses cash from other payments of accounts receivables to conceal the initial theft ("laps" two consecutive accounts).
- *Conflict of interest* occurs when a person has an undisclosed economic or personal interest in a transaction that adversely affects that person's employer.
- *Phantom Contractor* is a non-existent company whose invoice is submitted for payment by a person involved in the purchase process.
- *Purchase of Personal Use*. A person may purchase items intended for personal use or may make excess purchases of items needed, some of which are then diverted to personal use.
- *Split Purchases*. Contracts are split into two or more segments to circumvent the procurement authority's limitations, and thus to avoid competitive bidding. This may involve bribery from the contractor to a person of the other party.
- *Collusive Bidding, Price Fixing or Bid Rigging*. Groups of prospective contractors for a contract form an agreement or arrangement, to eliminate or limit competition. This agreement may also involve bribery.
- *Progress Payment Fraud*. The contractor requests progress payments based on falsified information submitted *to the other party*.
- *Over or under invoicing*. Occurs when there is deliberate misstatement of the invoice value as compared with goods or services received or supplied.
- *Extortion* is the use of authority to secure unlawful pecuniary gain or advantage.
- *Nepotism and Favouritism* unlawful use of public office to favour relatives and friends.
- *Loss of Revenue on account of tax or duty evasion* can include different situations where revenue due to the government is not received or paid.
- *Unfair Recruitment* favouritism exercised in the process of recruitment *for* unlawful gain.
- *Computer Fraud* is any fraudulent behaviour connected with computerization by which a person intends to gain a dishonest advantage. For instance, salami-slicing is a computer fraud where fractions of interest calculations are transferred to a personal account.

IDENTIFICATION OF HIGH RISK AREAS

2.28 An understanding of the audited entity may enable the auditor to identify potential high risk areas and suitably modify audit procedures and techniques. Some of the

commonly perceived high risk areas are:

- contracts of service \ procurement;
- inventory management;
- sanctions \ clearances;
- program management;
- revenue receipt;
- cash management;
- general expenditure; and
- Other areas with public interface.

SAIs would have to be based on experience and perceptions, identify such risk areas while planning audits.

CONTRACT FRAUD AND CORRUPTION

2.29 Procurement of goods and services is a major activity in the government sector and is traditionally prone to fraud and corruption. Understanding fraud and corruption in contracts may therefore be beneficial to the auditor. An illustrative list of the forms Fraud and Corruption can take in the area of contracts is given at Appendix I to enhance the Auditor's understanding.

2.30 The audit of Contracts in most SAIs. Therefore becomes an area of *focus* for the auditor who has to be particularly sensitive to the possibility of Fraud in this area. Appendix 2 lists out the warning signs that an auditor needs look out *for*. These would alert him to the necessity *of* further scrutiny or intensive examination. The size of the sample or the techniques adopted could also be suitably adjusted.

COMPUTER FRAUD

2.31 With the increased use of information technology in the function of entities and increased introduction of IT systems the auditors needs to understand that the perpetration of fraud and corruption and consequently detection of such instances become more complicated.

2.32 Computer fraud could involve the manipulation of a computer or computer data by whatever method, in order to dishonestly obtain money, property or some other advantage of

value or to cause loss.

2.33 Auditor has to be particularly aware *of* the audit trail, of the checks and balances of IT systems, of the levels of control and needs to have a fair idea of how processing controls can be circumvented by the perpetrator of fraud and how data can be accessed and manipulated. It is particularly important for the auditor of the IT system to *assess* in his audit the level of security controls built in and if these are in tune with the sensitivity of data.

2.34 Audit evidencing in an IT environment is often more complex than traditional manual audit. In an IT environment not only is it necessary to understand the techniques of assessing system and data soundness, but also to establish means of collecting evidence. The standards of audit evidence collection have to be set by the SAIs in consonance with the legal framework and regulations in which the audit is carried out.

2.35 Since this is an emerging field *of* audit and is also undergoing rapid changes, SAI may consider the pooling of information on the IT audits conducted and techniques adopted.

III. TREATMENT OF FRAUD AND CORRUPTION-BASIC PRINCIPLES

Auditing Principle

3.1 The SAI may consider compliance with the INTOSAI's auditing standards in all matters that are deemed material. (Paragraph 1.0.6 (a))

3.2 INTOSAI Guidance

In general terms, a matter may be judged material if knowledge of it is likely to influence the audit user of the financial statements or the performance report (Paragraph 1.0.9).

Materiality is often considered in terms of value but the inherent nature or characteristic of an item or group of items may also render a matter material-for example, where the law or regulation requires it to be disclosed separately regardless of the amount involved. (Paragraph 1.0.10)

In addition to materiality by value and by nature a matter may be material because of the context in which it occurs. For example, considering an item in relation to:

- a) The overall view given to the financial information:
- b) The total of which it forms a part:
- c) Associated terms:
- d) The corresponding amount in previous years. (Paragraph 1.0.11)

ASOSAI's Guideline 1

While determining materiality levels for different audit areas the SAI may take into account adjustment to the materiality level that may make audit more responsive to risk arising from fraud and corruption.

Auditing Principle

3.2 The SAI may apply its own judgment to the diverse situations that arise in the course of government auditing [paragraph 1.0.6 (b)].

INTOSAI Guidance

Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures (paragraph 1.0.16).

ASOSAI Guideline 2

SAIs may apply its own judgment to determine the extent of audit investigation to be undertaken in cases of suspected fraud and corruption.

Auditing Principle

3.3 *With* increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively [paragraph 1.0.6 (C)].

ASOSAI's Guideline 3

With an increasing concern on fraud and corruption, SAI is expected to demonstrate that, the audit addresses these concerns. The SAIs may actively consider adopting a formal policy, or strategy for deterring fraud and corruption.

Auditing Principle

3.4 Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information. (Paragraph 1.0.6 (d))

Appropriate authorities may ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government, and audited entities may develop specific and measurable objectives and performance targets [paragraph 1.0.6 (e)].

Consistent application of acceptable accounting standards may result in the fair presentation of the financial position and the results of operations [paragraph 1.0.6 (f)].

INTOSAI's Guidance

The correctness and sufficiency of the financial reports and statements are the entity's expression of the financial position and the results of operations. It is also the entity's obligation to design a practical system which will provide relevant and reliable information (paragraph 1.0.24).

The SAs may work with the accounting standards setting organisations to help ensure that proper accounting standards are issued for the government. (Paragraph 1.0.26)

ASOSAI's Guideline 4

SAI may review whether applicable accounting standards ensure adequate recognition of assets and liabilities and disclosure of true financial position inclusive of any losses resulting from fraud and corruption. In case it observes any deficiency in this regard it may work with the audited entity and the accounting standard setting body to remove the deficiency.

ASOSAI's Guideline 5

The responsibility for adequate and timely disclosure of any cases of fraud and corruption rest with the management and the responsibility of ensuring reliability and results of operation must include concerns arising from risk of fraud and corruption. Through its audit the SAI must evaluate and report on the adequacy and competence with which the management has discharged this responsibility.

Auditing Principle

3.5 The existence of an adequate system of internal control minimises the risk of errors and irregularities [paragraph 1.0.6 (g)].

INTOSAI's Guidance

It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is not the auditor's responsibility. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with, and that probity and propriety are observed in decision making. However, this does not relieve the auditor from submitting proposals and recommendations to the audited entity where controls are found to be inadequate or missing [paragraph 1.0.31)].

ASOSAI's Guideline 6

SAIs may be alert to shortcomings in systems and controls that are likely to provide an environment conducive for fraud and corruption and may proactively report to the management to improve the control environment and minimize the risk of fraud and corruption.

Auditing Principle

3.6 Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit (paragraph 1.0.6 (h))

INTOSAI Guidance

The SAI must have access to the sources of information and data as well as access to officials and employees of the audited entity in order to carry out properly its audit responsibility. Enactment of legislative requirements for access by the auditor to such information and personnel will help minimize future problems in this area (paragraph 1.0.33).

ASOSAI's Guideline 7

Legislative enactment can ensure that all suspected and detected cases of fraud and corruption are reported to audit by the management. If considered necessary SAI can reinforce their mandate to investigate cases of fraud and corruption by seeking legislative enactments on these lines.

Auditing Principle

3.7 All audit activities may be within the SAI's audit mandate [paragraph 1.0.6 (i)].

INTOSAI Guidance

The full scope of government auditing includes regularity and performance audit (paragraph 1.0.38).

Regularity audit embraces

- a) *Attestation of financial accountability of audited entities, involving examination and evaluation of financial records and expression of opinions on financial statements.*
- b) *Attestation of financial accountability of the government administration as a whole;*
- c) *Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;*

- d) *Audit of internal control and internal audit functions:*
- e) *Audit of the probity and propriety of administrative decisions taken within the audited entity: and*
- f) *Reporting of any other matters arising from or relating to the audit that the SAI consider should be disclosed (paragraph 1.0.39)*

Performance audit is concerned with the audit of economy, efficiency and effectiveness and embraces:

- a) *Audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;*
- b) *audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangement and procedures followed by audited entities for remedying identified deficiencies and*
- c) *Audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact (paragraph 1.0.40).*

ASOSAI's Guideline 8

Normally sensitization of different types of audits undertaken by SAIs to fraud and corruption can be brought about under their existing mandate. However, where SAIs feel constrained, they can seek additional mandate.

Auditing Principle

3.8 SAIs may work towards improving techniques for auditing the validity of performance measures [paragraph 1.0.6 (j)].

INTOSAI Guidance

The expanding audit role of the auditors will require them to improve and develop new techniques and methodologies to assess whether reasonable and valid performance measures are used by the audited entity. The auditors may avail themselves of techniques and methodologies of other disciplines. (Paragraph 1.0.46)

ASOSAI Guideline 9

The auditor may make the management aware that the absence or lack of application of reliable and valid performance measures and indicators could increase the possibility of

occurrence of fraud and corruption.

3.9 The SAI may adopt policies and procedures to recruit personnel with suitable Qualifications [paragraph 2.1.2 (a)].

The SAI should adopt policies and procedures to support the skills and experience available within the SAI and identify the skills which are absent; provide a good Distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern [paragraph 2.1.2 (d)].

INTOSAI Guidance

It may be open to the SAI to acquire specialised skills from external sources if the successful carrying out of an audit so requires in order that the audit findings, conclusions and recommendations are perceptive and soundly based and reflect an adequate understanding of the subject area of the audit. It is for the SAI to judge, in its particular circumstances, to what, extent its requirements are best met by in-house expertise as against employment of outside experts. (Paragraph 2.1.18)

ASOSAI Guideline 10

The SAI may have an adequate inventory of skills to deal with cases of fraud and corruption. In the detailed examination of cases of fraud and corruption where an SAI feels the need to involve outside professional expertise, such professional opinion may only serve to augment the audit conclusion, the ultimate responsibility for the conclusion remaining with the SAI.

General Standard

3.10 The SAI may adopt policies and procedures to develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff [paragraph 2.1.2 (b)].

INTOSAI Guidance

The SAI may take adequate steps to provide for continuing professional development of its personnel, including, as appropriate, provision of in-house training and encouragement of attendance at external courses. (Paragraph 2.1.6)

The SAI may establish and regularly review criteria, including educational requirements, for the advancement of auditors and other staff of the SA! (Paragraph 2.1 8)

ASOSAI Guideline 11

In considering the portfolio of skills that the SAI may have to meet the requirements of its audit mandate, the SAI may pay particular attention to training its auditors to tear with concerns about fraud and corruption, including experience gained from past fraud and corruption cases. Training could include developing forensic auditing skills provided that forensic investigation is covered by the mandate of die SAI.

SAIs could consider sharing of information and knowledge of techniques, procedures and skill development in order to develop expertise in this area.

General Standard

3.11 The SAI may adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits [paragraph 2.1.2 (e)].

INTOSAI Guidance

Communication to staff of the SAI by means of circulars containing guidance and the maintenance of an up-to-date audit manual setting out the SAIs policies, standards and practices, is important in maintaining the quality of audits. (Paragraph 2.1.14)

ASOSAI Guideline 12

SAI may consider reviewing the manuals, policies and prospectus from the perspective of conducting audits that are sensitive to fraud and corruption and dealing with suspected cases of the nature.

General Standard

3.12 The auditor and the SAI must be independent [paragraph 2.2.1 (a)].

SAIs may avoid conflict of interest between the auditor and the entity under audit [paragraph 2.2.1 (b)].

INTOSAI Guidance

While the SAI must observe the laws enacted by the legislature, adequate independence requires that it is not otherwise be subject to direction by the legislature in the programming, planning and conduct of audits. The SAI needs freedom to set priorities and program its work in accordance with its mandate and adopt methodologies appropriate to the audits to be undertaken (paragraph 2.2.9).

The legal mandate may provide for full and free access by the SAI to all premises and records relevant to audited entities and their operations and may provide adequate powers for the SAI to obtain relevant information from persons or entities possessing it (paragraph 2.2.19).

ASOSAI Guideline 13

The SAIs need to demonstrate that they are independent not only in a legal sense but in a practical sense as well so that they can perform an effective role against fraud and corruption. Demonstration of independence in practical audit work includes avoidance of any possible conflict of interest situation.

The SAI May be in a position to carry out an independent risk assessment and prioritize its audit planning accordingly.

Where necessary the SAI may work for legislation that would allow it access to all records and information required in the examination of cases of fraud and corruption.

ASOSAI Guideline 14

Without compromising on their independence to plan and conduct audit the SAIs may consider establishment of means to receive and process information from the public on suspected cases of fraud and corruption.

General Standard

3.13 The auditor and the SAI must exercise due care and concern in complying with the INTOSAI auditing standards. This embraces due care in specifying, gathering and evaluating evidence and in reporting findings, conclusions and recommendations [paragraph 2.2.1(d)].

INTOSAI Guidance

SAI must be and be seen to be, objective in its audit of entities and public enterprises. It may be fair in its evaluations and in its reporting of the outcome of audits (paragraph 2.2.40).

ASOSAI Guideline 15

Since complete evidence about cases of fraud and corruption may not be available to the SAI, due care may be exercised in arriving at an audit conclusion. In many circumstances additional tests may have to be performed and additional evidence acquired than would normally be considered appropriate and necessary for arriving at an audit opinion.

ASOSAI Guideline 16

In investigating and reporting cases of fraud and corruption the SAIs may be aware of that risk. The 'perpetrators of fraud and corruption seek protection for their acts by accusing the auditors of fraud and slander. The SAIs could consider working towards changes in their legislation which protects their auditors against such allegations and likely legal proceedings.

FIELD STANDARDS Planning

Field Standard

3.14 The auditor may plan the audit in a manner which ensures that audit of high quality is carried out in an economic, efficient and effective way and in a timely manner [paragraph 3.0.3 (a)].

INTOSAI Guidance

In planning an audit, the auditor may:

- *identify important aspects of the environment in which the audited entity operates;*
- *develop an understanding of the accountability relationships;*
- *consider the form, content and users of audit opinions, conclusions or reports;*
- *specify the audit objectives and the tests necessary to meet them;*
- *identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses;*
- *determine the materiality of matters to be considered; eg; review the internal audit of the audited entity and its work program;*
- *determine the most efficient and effective audit approach;*
- *assess the extent of reliance that might be placed on other auditors, for example, internal audit;*

- *provide for a review to determine whether appropriate action has been taken on previously reported audit findings and recommendations; and*
- *provide for appropriate documentation of the audit plan and for the proposed fieldwork (paragraph 3.1.3).*

The following planning steps are normally included in audit programme:

- *collect information about the audited entity and its organization in order to assess risk and to determine materiality;*
- *define the objective and scope of the audit;*
- *undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;*
- *highlight special problems foreseen when planning the audit;*
- *prepare a budget and a schedule for the audit;*
- *identify staff requirements and a team for the audit; and*
- *familiarise the audited entity about the scope, objectives and the assessment criteria of audit and discuss with them as necessary (paragraph 3.1.4).*

SAI may revise the plan during the audit when necessary.

ASOSAI Guideline 17

While planning his audit the auditor may assess the risk that fraud may cause the financial Statements to contain material misstatement or record material irregular transactions.

- *auditor may keep in view that the risk of fraud and corruption could be higher in certain organization like those involved in, procurement of goods and services.*
- *auditor may keep in view that when a fraud is detected, there is a deliberate effort to conceal the facts and distract the auditor.*
- *For planning the audit, the auditor may have a complete understanding of the audited entity including the environment in which the entity operates the level of internal control and the past performance of the audited entity especially, previous instances of fraud and corruption.*

ASOSAI Guideline 19

The SAI may keep in view the need for flexibility in terms of budget, time and expertise of the audit team particularly when fraud and corruption are suspected or

discovered in the course of audit.

Supervision and Review

Field Standard

3.15 The work of the audit staff at each level and audit phase may be properly supervised during the audit; documented work may be reviewed by a senior member of the audit staff [paragraph 3.0.3 (b)].

INTOSAI Guidance

All audit work may be reviewed by a senior member of the audit staff before the audit opinions or reports are finalised. It may be carried out as each part of the audit progresses. Review brings more than one level of experience and judgment to the audit task and may ensure that:

- *all evaluations and conclusions are soundly based and are supported by competent, relevant and reasonable audit evidence as the foundation for the final audit opinion or report;*
- *all errors, deficiencies and unusual matters have been properly identified, documented and either satisfactorily resolved or brought to the attention of a more senior SAI officer(s); and*
- *changes and improvements necessary to the conduct of future audits are identified, recorded and taken into account in later audit plans and in staff development activities (paragraph 3.2.4).*

ASOSAI Guideline 20

For ensuring that all audits dealing with actual cases of fraud and corruption are adequately supervised; the SAI may develop policies, including a comprehensive supervision checklist regarding supervision levels and procedures for managing the investigation of fraud and corruption.

When fraud and corruption are suspected in the course of audit the auditor may report matter to the official of the SAI in accordance with the SAI's policy on supervision levels.

Study and Evaluation of Internal Control -Field Standard

3.16 The auditor, in determining the extent and scope of the audit, may study and evaluate the reliability of internal control [paragraph 3.0.3 (c)].

INTOSAI Guidance

The study and evaluation of internal control may be carried out according to the type of audit undertaken (paragraph 3.3.2).

Where accounting or other information systems are computerized, the auditor may determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data (paragraph 3.3.4).

ASOSAI Guideline 21 The changes and improvements in the internal control system made by management when there have been previous instances of fraud and corruption or in response to changes in the audited entity environment may be particularly studied and evaluated during audit.

ASOSAI Guideline 22 increasing use of IT systems by audited entities requires that the auditor may have access to reliable and verifiable system-based audit trails to evaluate the internal control for meeting this objective legislation or executive guidance may ensure that audit is viewed- as a stakeholder in the system development.

Compliance with Applicable Laws and Regulations

Field Standard

3.17 In conducting regularity (financial) audits, a test may be made of compliance with applicable laws and regulations. The auditor may design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audits. The auditor also may be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements or results of regularity audits.

In conducting performance audits, an assessment may be made of compliance with

applicable laws and regulations when necessary to satisfy the audit objectives. The auditor may design the audit to provide, reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor also may be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results.

Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions [paragraph 3.0.3 (d)].

INTOSAI Guidance

The auditor also may be alert to situations or transactions that could be indicative of illegal act: that may indirectly impact the results of audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor needs to determine the extent to which these acts affect the audit result, (paragraph 3. 4, 4).

Without affecting the SA!'s independence, the auditors may exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisations to determine the audit steps and procedures to be followed (paragraph 3.4.7).

ASOSAI Guideline 23

Whenever a material instance of failure to comply with the applicable laws and regulations is observed the auditor may' without automatically assuming the management and staff are dishonest, investigate the control failure with an appropriate degree of professional skepticism. He may also examine if supporting evidence has been tampered in any manner or any individual(s) could' have benefited .from the material violation.

Field Standard

3.18 Competent, relevant and reasonable evidence may be obtained to support the auditor's judgment and conclusions regarding the organisation, program, activity or function under audit. {Paragraph 3.0.3 (e)}

INTOSAI Guidance

Auditors' should have a sound understanding of techniques and procedures such as inspection, Observation, enquiry and confirmation, to collect audit evidence. The SAI may ensure that the techniques employed are sufficient to reasonably detect all quantitatively material errors and irregularities. (Paragraph 3.5.3)

ASOSAI Guideline 24

When auditors suspect the possibility of fraud and corruption, they may establish whether it has taken place and there has been resultant effect on the financial reporting, especially whether the certificate requires the qualifications.

ASOSAI Guideline 25

When auditors intend to report on fraud and corruption, they may ensure the reliability of audit evidence by verifying it with source documents including third party evidence. Auditor may carefully determine how much evidence they may gather in support of audit conclusions. Auditors may also keep in view that the evidence gathered and the conclusion drawn by them could become the basis of legal or disciplinary proceedings. (Some of the sources of evidence and factors that may be considered in searching for evidence are listed in Appendix.)

ASOSAI Guideline 26

Since many records are produced by computers in the usual and ordinary course of work, auditors may understand how to correct and handle those records as audit evidence. Collecting computer evidence requires carefully planning and execution. Auditors may examine whether appropriate controls are in place in order to ensure the authenticity if computer evidence.

Analysis of Financial Statements

Field Standard

3.19 In regularity (financial) audit, and in other types of audit when applicable, auditors may analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements may be

performed to such a degree that a rational basis is obtained to express an opinion on financial statements [paragraph 3.0.3 (f)].

INTOSAI Guidance

Financial statement analysis aims at ascertaining the existence of the expected relationship within and between the various elements of the financial statements, identifying any unexpected relationships and any unusual trends (paragraph 3.6.2).

ASOSAI Guideline 27

Auditors need to be alert to deviations from acceptable accounting standards including disclosure requirements particularly when there is suspicion of fraud and corruption.

REPORTING STANDARDS

Reporting Standard

3.20 At the end of each audit the auditor may prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content may be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive [paragraph 4.0.7 (a)].

It is for the SAI to which they belong to decide finally on the action to be taken in relation to fraudulent practices or serious irregularities discovered by the auditors [paragraph 4.0.7 (b)].

INTOSAI Guidance

In formulating and following up recommendations, the auditor may maintain objectivity and independence and thus focus on whether identified weaknesses are corrected rather than on whether specific recommendations are adopted (paragraph 4.0.26).

ASOSAI Guideline 28

When in the opinion of the auditor, the financial statements include material fraudulent transactions, or such transactions have not been adequately disclosed, or the audit conducted by the auditor leads him to the conclusion that instances of fraud and \ or corruption have taken place and when the auditor has adequate evidence to support his

conclusion, he may qualify the audit certificate and \ or ensure that his findings are adequately included in his audit report. However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law.

ASOSAI Guideline 29

The report may contain auditor's recommendations for the changes in the system and procedures that could prevent recurrence of such instances.

ASOSAI Guideline 30

In following upon reported cases of fraud and corruption the auditor may determine whether the necessary action is being taken with due regard to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.

Appendix I

Types of Fraud and Corruption in Contracts

The following types of fraud and corruption have been reported in contracting for goods and services:

- *Bribery and Kickbacks* - Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance of substandard goods or obtaining unauthorized information.
- *Changes in Original Contracts* - Changes are made in the original contract requiring flow of additional funds from the government to the contractor, which may affect the basis on which the contract was awarded to the contractor in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.
- *Duplicate Payments* - the contractor claims and receives payment for the same service or work done or goods supplied under the same or different contracts.
- *Collusive or Cartel Bidding* - Contractors form cartels to fix artificially high prices for goods and services supplied by them.
- *Conflict of Interest* - Contracts are awarded on the basis of vested interests of the decision makers.
- *Defective Pricing* - The contractor submits inflated invoices
- *False Invoices* - The contractor submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.
- *False Representations* - The contractor falsifies the goods specifications or his ability to provide certain services.
- *Splitting of Purchases* - The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.
- *Phantom Contractor* - Purchases are made from a fake supplier or contractor.
- *Pilferage of Public Assets* - Public funds are used to acquire goods for personal use or public assets pilfered by officials.
- *Tailored specifications* - Specifications and time limits are manipulated to favour a certain contractor or supplier.

Appendix 2

WARNING SIGNS OF POSSIBLE FRAUD AND CORRUPTION IN CONTRACTS

Procurement and contracting of goods and services present different opportunities for fraud and corruption at different stages of the procurement and contracting processes. The auditor would be well advised to look out for warning signs corresponding to each stage. These warning signs indicate the increased risk factor in contracts and serve as red flags for the auditor.

Requirements defining stage

- Inadequate needs analysis
- Inadequate information about potential suppliers
- Inadequate review of existing and required inventory
- Unduly short supply period
- Needs analysis is product rather than needs oriented
- Someone other than the user defines the user requirements
- Unwarranted involvement of senior officials

Bidding and selection stage

- The specifications are not clearly defined
- A very limited number of offers are received
- Documentation indicates unusual involvement of an official
- Suspicion about conflict of interest
- Evidence of early receipt of information by some contractors
- Request for proposal is not properly advertised
- Unusual handling of the bidding process
- Evaluation criteria are not consistent for different offers
- Exceptions to the tender deadlines
- Changes in the bids made after their formal receipt
- Lowest responsive bidder is not selected
- Contractor submits unrealistic bid indicating collusion or bid rotation
- Unusual withdrawal of bids
- Re-bid results identical to original bids
- Successful contractors use competitors as sub-contractors
- Justification for single source procurement is inadequate

Contract performance and evaluation stage

Changes in a contract result in the large increase in the cost of goods and services

Changes made without adequate explanations

Unwarranted contract extension

Complaints about the quality of goods and services received

Inadequate inspections and quality assurance of goods and services received

Evidence over-charging and duplicate billings

Dubious invoices

Insufficient pre-audit of contractor`s payments

Contracts repeatedly awarded to one contractor

Unduly high labour payments

Appendix 3

AUDIT EVIDENCE

In searching *for* the evidence of fraud and corruption the auditor must:

- Always search for the strongest possible evidence;
- Investigate without delay, as evidence can be destroyed, lost or forgotten;
- Not ignore small clues or leads;
- Look *for* facts that confirm or refute suspicions;
- Concentrate on the weakest point in the fraud and corruption.
- Identify and summarize the evidence indicating that fraud and corruption may have been committed;
- Identify the possible scenario of fraud and \ or corruption;
- Summarize and explain the accounting and control systems involved, the paper trail involved in the transaction, and the deviations from the systems;
- Explain patterns used in covering up the fraud and corruption;
- Identify the possible extent of the fraud and corruption; and
- Consider the possibility of collusion.

Sources of Evidence

- Documents from the audited entity: During the course of examination of books of accounts, Auditors investigate various documents that serve as evidence for the audit. These documents may be originals or photocopies depending upon their importance.
- Report of Internal Auditor: The internal auditor may have identified instances of deviation from normal procedure.
- Interviews: Auditors can obtain important information from various government employees. Since they may have noticed internal control failure made by managers and fraudulent activities perpetrated by other employees, interviews may be useful in detecting material misstatements caused by fraud and corruption.
- Inspection \ Observation: Auditors can notice possibility of fraud and corruption through the examination of inspection \ observation \ physical verification reports (e.g. forged document. inventory not in existence or of inferior quality). Where any auditor relies on physical observation for an audit conclusion this would need to be supported with properly documented evidence.
- Questionnaires: Auditors may gather important and helpful information by \ using questionnaires.

- Confirmation with other related parties: Auditors sometimes obtain information directly from other related parties (e.g. bank balance confirmation from the bank, Debtor's balance, confirmation from individual debtors etc). If the figures provided by these agencies do not tally with the books of account, they may check in detail to find out the reason for discrepancy.
- Results of Analytical Review: Auditors analyze both financial and non-financial information, which can indicate abnormal trends. In that case, auditors need to concentrate on particular areas.
- Expert Opinion: Auditors may seek expert opinion about a suspicious case. The expert opinion becomes evidence if auditors can rely on that opinion in assessing fraud and corruption.

AUDIT TECHNIQUES

Audit techniques are the methods by which Auditors gather and evaluate facts that would enable formation of a rational opinion about the transaction. The usual Audit techniques are:

- Physical examination
- Confirmation
- Check of original documents and comparison with records
- Recomputing
- Retracing book keeping procedures
- Scanning
- Enquiry
- Examination of subsidiary records
- Correlation with related information, etc.

The relative emphasis placed on the various techniques will differ depending on the nature of the business and the transactions. The Auditor has to apply his common sense and intelligence in dealing with the individual cases. The coverage of Audit techniques is being extended with the changing concepts of Auditing from traditional Audit to modern management \ operational Audit. Some of the advanced techniques in the evaluation of the internal control system are indicated below:

Systems Evaluation

The modern Auditing procedure is system-based which begins with evaluation of the accounting system and internal controls and testing the reliability of the system i.e. ascertaining how reliable the system is and then deciding how much detailed checking of the transactions is necessary. If the initial evaluation of the system of internal control showed it to be unsatisfactory, it becomes necessary to proceed directly to detail checking of the transactions. In testing a system, it is necessary to examine the transactions in depth so that a number of transactions will be tested from their inception to their conclusion, e.g. Purchases: The checking starts with authorisation of the original order, actual receipts of goods, stock records, creditors invoice, accounting entries and payment particulars.

Sampling

Where the volume of transactions is high, a cent per cent check cannot be exercised and test checks have to be resorted to. Statistical sampling is a systematic application of the test checks and provides a reliable basis for selection of items to be test checked and evaluation of the results are based on the effectiveness of internal check. Before selection of a sample, the degree of precision required and the confidence limits may be decided upon.

Pattern Investigation

Pattern investigation emanates from the findings of Audit by adopting test checks or sampling techniques. When control lapses are noticed, a pattern check is made. Wherever exceptions are noticed, it may be treated as a chain and may be treated as a tip of a hideous mass underneath and in such cases pattern investigation is to be resorted to. The objective pattern investigation is to ensure that the exception noticed in course of Audit is an isolated case and not an indication of system weakness or fraudulent practice. Any lapse that results in a loss, the common factors for such occurrences may be identified. The control lapse would arise, either through negligence or a procedural weakness or a deliberate intention to defraud. It is necessary to identify this to make a hypothesis about the reasons for the weaknesses and after establishing hypothesis, more of the related documents may be verified to see whether a pattern emerges leading to a detailed investigation.

INTERNAL CONTROLS AND INTERNAL AUDIT

Internal Control

The term 'internal control' refers to action taken within an organisation to assist in regularising and directing the activities of the organisation. Section 227 (4-A) of the Companies Act, 1956 requires the Statutory Auditor to report specifically on internal control. The Audit by the CAG being supplementary in nature has to study the extent of internal control achieved in various spheres of the Companies activities, its effectiveness and usefulness.

The term 'internal control' may be defined as the means by which the Management obtains the information and ensures the checks and controls necessary for successful operations of a business enterprise. Appraisal of internal control enables the Auditor to be selective in his detailed examinations, wherever the internal control is satisfactory, the coverage of Audit could be restricted whereas it may conduct an in-depth analysis where the control is weak.

A good system of internal control contains the following essential features:

- The Company may have an appropriate corporate plan for their organisation, a proper system for defining and allocating responsibilities and identifying lines of reporting of all aspects of the operations of the enterprise including controls. The delegations of authority and responsibilities have to be clearly defined;
- All transactions may require authorisation or approval by an appropriate authority. The limits for such authorisation may be specified;
- There may be records and procedures adequate to provide a reasonable accounting control over assets, liabilities, revenues and expenses;
- There may be adequate control within the recording function, so as to ensure that the transactions to be recorded and processed have been duly authorised that all transactions are included, are correctly recorded and accurately processed. Such checks include, checking the arithmetical accuracy of the records, maintenance and checking of totals, reconciliation, control accounts and trial balance;
- The quality of personnel may commensurate with their duties and responsibilities. The requirement included that supervision is carried out by responsible officials, who verify day-to-day transactions and the recordings thereof; and

- Sound practices exist for observance during the performance of duties and functions of each of the organisational departments.
- The degree of internal control will have a bearing on the examination in terms of:
 - a. The selection of audit procedure to be utilised in the particular engagement;
 - b. The timing of the application of the procedures, i.e. whether they are applied on a preliminary basis before the date of the financial statements or applied after the date of the statement; and
 - c. The amount of testing that is necessary to support the Audit opinion on the financial statements.

For the purpose of evaluation of internal control, a specimen internal control questionnaire intended to provide general guidance is given below:

GENERAL GUIDELINES ON INTERNAL CONTROL SYSTEM

I. Objectives

- Does the organisation have a statement defining its objectives clearly and in specific terms?
- Whether the objectives can be identified from the policy guidelines issued by the management where there is no written statement of objectives?
- Whether the broad objectives broken down into detailed targets periodically by way of plans?
- Whether separate targets for each responsibility centre are formulated?
- Whether the objectives are being revised periodically in the light of changes in internal and external environment?
- Whether the objectives are expressed in specific quantitative terms i.e. rate of return physical output or quantum of service, etc.?
- Whether the guidelines in terms of policies in the area of management are clear cut?

II. Planning

- Whether the organisation has a system of long range and short range planning?
- Whether planning is viewed as the starting point of the management function?

- Whether the planning is related to the objectives of the organisation?
- What is the degree of involvement of various levels of management in the planning process?
- Whether the operating plans are being prepared periodically and expressed in quantitative terms for each area of operation?
- How are the budgets framed? Whether budgeting is a co-ordinated activity?
- How budget estimates are developed?
- Whether the budget estimates are reviewed by a high level committee in depth?
- Whether it is prepared, scrutinised and approved sufficiently before budget period?
- Whether the budget conveyed to all operational levels in time and it is easily understandable?
- How far the functional managers are committed to the target set up in the budget?

III. Organisation

- Whether the Company has a well defined organisational structure and an organisational chart has been prepared?
- What are the various levels in the organisational hierarchy? Whether the authority and responsibility are clear? Whether there is a position where a person reports to two or more authorities?
- Whether the principles of formal organisation are being followed?
- What is the managerial philosophy in the organisation? Whether the decision making is centralised or decentralised?
- What is the usual span of supervision?
- What is the nature of superior–subordinate relationship in general? Whether the authority patterns fraternal in nature?
- How do the various managers view people at work?
- What is the system of motivation in the organisation? Whether the motivation is performance based?
- Whether the distribution of work is done as per the modern theories of organisation? Whether there is too much specialisation?

IV. Control

- What is the philosophy of control? Whether the controls are close, detailed and frequent? They are broad and periodic?
- Whether there is a list of active and identifiable controls? Whether the controls are physically or monetary or both?
- Whether the control related to plans?
- What are the main parameters of control? Whether these are defined precisely for each responsibility areas?
- Whether the control highlights variances between actual performance and targets?
- Whether the controls are acceptable to various levels of management?
- Whether there is system of rewards and punishment linked with controls?
- Whether the cost of each control has been worked out and ensured that cost does not exceed the benefits?
- Whether the controls are reviewed periodically and inactive controls are eliminated? What is the procedure for altering or terminating controls?
- What is the detailed system of operational control over various assets and transactions of the organisation?
- What is the control system over cash, bad debts, fixed assets, pay roll, inventory levels, research and development, overtime, tax-payment, obsolescence and collection of sundry debtors?

V. Systems and Procedures

- Who is responsible for designing system? Whether the department responsible for it is adequately manned with qualified people?
- Whether there are proper description, flow charts and manuals showing various systems?
- Whether the system related to the changing technology and environment of the business and whether there is a system of periodic review?
- Whether the system properly explained to various people before they are put

into operation? What other steps are taken to meet the usual resistance to a new system?

- Whether there is a periodical review of cost benefit of a particular system?
- What are the various forms in use? Whether they are designed to give proper information with minimum efforts?
- What are the steps taken to reduce the paper work?
- Whether the routing of various forms and statements periodically reviewed keeping in view the need for information at various levels and possibility of delays?
- Whether the filing and storage procedures for various documents are properly laid down? Is there a definite system for automatic disposal of documents?
- Whether the organisation has a computerised information system? Whether its cost effectiveness, need for creation of necessary knowledge and motivation levels have been considered?
- Whether there is periodic review of efficacy of computerised system in the context of developments in technology?

Accounting and Finance

- What is the role of accounting and finance department in overall management structure? Whether it is properly staffed with qualified persons? What is its relationship with other departments?
- Whether the organisation has a proper system of financial and cost accounts? Are the two integrated or separate?
- Whether the financial accounting system is efficient? How regularly the trial balance is prepared and how much time it takes in preparing the final accounts after annual closing?
- How effective is the internal control checks in the accounts department? Whether the systems have been designed to minimise the possibility of errors,

frauds and mis-appropriations? What are the control on flow of cash, goods and documents?

- Whether the manuals and flow charts exist describing various accounting procedures and are they reviewed periodically?
- Whether there is an internal audit department and how the reports of internal auditors are dealt with?
- Whether the costing systems suited the needs of the organisation?
- Whether standard costs been determined? Whether they are developed on the basis of time, motion and work-studies?
- Whether the cost statements are prepared in time and reviewed periodically?
- What is the system of budgetary control? How are the variances between actual and budget figures dealt with?
- What are the basis of allocation, apportionment and absorption of overheads? Are they fair and objective?
- Whether the costs are classified by their nature and the cost department uses the technique of marginal costing for profit planning?
- Whether the future requirement of funds estimated and cash flow statements prepared periodically? Are the projections related to the planned level of activities?
- Whether the capital structure designed keeping cost and risk factors in mind?
- What is the cost of the capital? How does it compare with that of other similar units?
- Whether detailed financial analysis conducted before funds are committed for capital expenditure?
- Whether working capital requirement properly analysed? Are they related to the changes in the level of activities?
- Whether the policies regarding credit, stocks and cash, etc. are reviewed periodically to keep the working capital at the optimum level?

- How the working capital financed?
- How the cash management organised? Is it centralised? How do various segments of organisation receive adequate cash?
- Whether there is a constant watch on the solvency and liquidity of the organisation? Whether ratios are computed periodically to ensure that the organisation earns an optimum return on investment while maintaining a sound financial health?
- How does the return on investment of the organisation compare with that of other similar organisations?
- What is the system of financial control? Whether the various divisions appraised on the basis of their financial results.

Internal Control and Audit Procedures

CAG has inter alia observed in July 2003 that as part of external audit of Government Entities, it is required to make an assessment of the effectiveness of the internal audit arrangements in audited entities. Though the responsibility for internal audit resides, with the management of the department, the responsibility for reviewing the internal control systems including internal audit lies with the IA & AD. According to the provisions of Section 292 A of the Companies Act, 1956, every public limited company having paid up capital of not less than five cores of rupees is required to constitute a Committee of the Board known as Audit Committee comprising not less than three Directors. The Audit Committee is required to have discussions with the Auditors periodically about internal control system, the scope of audit including the observations of the Auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance of internal control system.

Under Section 227 (4A) of the Act, *ibid*, Statutory Auditors are also required to report specifically as to whether there is an adequate internal control procedure commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and where there is continuous failure to correct major weaknesses in internal control systems. Statutory Auditors are also required to report separately to the CAG under Section 619(3)(a) of the Act, *ibid* about adequacy of internal audit in the Company (No.38 \ CA-II \ Co-ordn. \ Internal Control \ 2003-04 \ 122-2003

dated 09.01.2004).

As per Headquarters letter No.678-CA-II \ 48 \ 99-Vol III dated 22.08.2003, a separate Para on internal audit \ internal controls needs to be included in all comprehensive reviews. Besides, a Para on internal audit \ internal control based on major comments \ recommendations by the Statutory Auditors under Section 227(4A) and Section 619(3)(a) of the Companies Act is to be included in Chapter I of Audit Report (Commercial). Apart from the compliance of the aforesaid instructions, deficiencies noticed in the compliance of Section 292A of the Act, ibid might be incorporated in the Para on internal control – both in Chapter I and individual comprehensive reviews.

With the increasing significance of evaluation of internal control procedure and methods, it has become essential to evaluate the same in a systematic manner. Before taking up of an Audit, the following steps may be adopted:

- (i) Ascertain the internal control system in existence, make a preliminary evaluation of the effectiveness of its control and decide on the extent of reliance, which could be placed thereon.
- (ii) Whether control systems exist as would meet the specified overall control objectives or whether there are controls which prevent or detect particular \ specified errors or omissions.
- (iii) To examine:
 - What procedures are in use to accomplish effective internal control?
 - .Are the procedures actually being followed?
 - How satisfactory are the procedures as a means of creating good internal control?
 - If the evaluation indicates that the controls meet the objectives, compliance tests may be carried out on the following lines:

The compliance tests are carried out to obtain reasonable assurance that the controls, which are relied on, are functioning properly throughout the period. The exceptions revealed by the testing may be recorded regardless of the amount involved in any particular transaction. If the tests indicate no exception, we may place reliance on the effective function of the internal controls tested. If the compliance tests have disclosed exception, which indicate that the control being tested was not operative or properly in practice, the

reasons there for may be examined. Further, it has to be assessed to see whether each exception is only an isolated departure or is representative of others and whether it indicates the possible existence of errors in accounting records. If the explanation received suggests that the exception is only an isolated departure, then the validity of explanation would be confirmed. If the explanation or further tests confirm that the control being tested was not operating properly throughout the period, then of course, the control cannot be relied upon. When internal control system has changed during the accounting period under review, one has to re-evaluate and test the internal controls, which exist, both before and after the change.

Any significant weakness in internal controls, which come to notice during the course of Audit, may be highlighted. In other words, the system of internal control may be evaluated in every area of the business before deciding the extent to which it could be relied upon. In every case, we must take into account the materiality of the matters involved, and the extent to which weakness in the system is compensated for by other controls.

Internal Audit

Internal Auditing is an independent appraisal activity within an organisation for the review of operations as a service to Management. It can be described as a managerial control, which functions by measuring and evaluating the effectiveness of other controls.

The Institute of Internal Auditors Inc. Florida, USA has given a new definition for Internal Auditing, which is as follows:

“Internal Auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation’s operation. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and Governance processes”.

The following are the important areas in which Internal Audit Department (IAD) normally carry out their Audit:

- Testing the adequacy of internal controls
- Verifying assets and liabilities
- Control procedures in respect of trade debtors
- Reviewing operation of the system for authorisation of payments to ensure that there is adequate control over expenditure
- Examining the procedures to ensure correct classification and allocation of income and expenditure

- Examining the soundness, adequacy and application of account, financial and other operating controls
- Ascertainment of the extent of compliance of established policies, plans and procedures
- Ascertaining the reliability of management data developed within the organisation
- Recommending operational improvements

Evaluation for the internal control from the standpoint of how well the accounting system provides for:

- Information that is accurate and adequate
- Protection of resources of the business from losses due to theft and embezzlement
- Control over all phases of operation

Evaluation of clerical and accounting efficiency is made through testing:

- Effectiveness of procedure
- Adequacy of personnel
- Programme of retention and destruction of records

Evaluation of performance of various departments of the organisation is made through:

- Plan of organisation
- Policies in effect
- Procedures being followed
- Individual performance

THE INTOSAI GUIDELINES ON AUDITING PRECEPTS

Purpose of audit

The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent - or at least render more difficult - such breaches.

Overview of Internal Control Concepts

Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. Therefore, responsibility for the adequacy and effectiveness of the internal control structure rests with management. The head of each governmental organization must ensure that a proper internal control structure is instituted, reviewed and updated to keep it effective. Internal control structures are defined as the plans of an organization, including management's attitude, methods, procedures and measures that provide reasonable assurance that the objectives are being achieved. Those objectives are

- Promoting orderly, economical, efficient and effective operations and quality products and services consistent with the organization's mission;
- Safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud and irregularities;
- Adhering to laws, regulations and management directives; and
- Developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.

To be effective, internal controls must satisfy three basic criteria:

- They must be appropriate (that is, the right control in the right place and commensurate to the risk involved).
- They must function consistently as planned throughout the period i.e. to be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy.

- They must be cost effective (i.e. the cost of implementing the control may not exceed the benefits derived).

Internal control standards are separated into two categories: general standards and detailed standards. Together, they define the framework for the minimum level of acceptability for an internal control structure in operation. They may be used as the criteria for both developing and evaluating internal controls. These internal control standards apply to all management, operational and administrative functions and may not be limited to financial operations. They also apply to all systems whether automated or manual.

General Standards

The general standards consist of reasonable assurance, supportive attitude, integrity and competence, control objectives and monitoring controls. Together, they provide the proper control environment within the organization. Internal control structures are to provide **reasonable assurance** that the general objectives will be accomplished. **Reasonable assurance** equates to a satisfactory level of confidence under given considerations of costs, benefits and risks: Determining how much assurance is reasonable requires judgment. In exercising that judgment, managers may

- (A) identify the risk inherent in their operations and the acceptable levels of risk under varying circumstances and
- (B) assess risk both quantitatively and qualitatively.

Detailed Standards

Detailed standards are the mechanisms or procedures by which control objectives are achieved. They include, but are not limited to, specific policies, procedures, plans of organization (including separation of duties) and physical arrangements (such as locks and fire alarms). Controls must provide reasonable assurance that the internal control objectives are being achieved continually. To do so, they must be effective and efficient and be designed to work together as a system, not individually.

To be effective, controls may fulfill their intended purpose in actual application. A set of controls designed to operate in a manual environment may not be effective in an automated environment. Therefore, the controls selected may provide the coverage they are intended to provide and operate when intended. As for efficiency, controls may be designed to derive maximum benefit with minimum effort. Controls tested for effectiveness and efficiency may be those in actual operations and may be evaluated over time to ensure that they are continually used.

The following controls are those widely used in designing an orderly and effective internal control structure. The specific methods and procedures discussed with each are not exhaustive but are used as examples.

- The internal control structure and all transactions and significant events are to be clearly documented and the documentation is to be readily available for examination.
- An organization must have written evidence of (1) its internal control structure including objectives and control procedures and (2) all pertinent aspects of significant events and transactions.
- **Prompt and Proper Recording of Transactions and Events:** Prompt and proper recording of information is essential for assuring the timeliness and reliability of all information used by the organization to support its operations and decision-making.
- **Authorization and Execution of Transactions and Events** Transactions and significant events are to be authorized and executed only by persons acting within the scope of their authority.
- **Separation of Duties:** Key duties and responsibilities in authorizing, processing, recording and reviewing transactions and events may be separated among individuals.
- **Competent Supervision:** Supervision is to be provided to ensure that internal control objectives are achieved.
- Assignment, review and approval of an employee's work requires
 - i) Clearly communicating the duties, responsibilities and accountabilities assigned to each staff member;
 - ii) Systematically reviewing each member's work to the extent necessary; and
 - iii) Approving work at critical points to ensure that it flows as intended.
 - iv) Restricted access to and accountability for highly vulnerable documents, such as check stocks, can be achieved by keeping them locked in a safe,
 - v) assigning a sequential number to each document and assigning custodial accountability to responsible individuals.

CHAPTER 8

Guidelines on Audit of Disinvestment

(Compiled from the booklet on Audit of Disinvestment received from Headquarters)

Audit Preparedness

Preparation for audit of disinvestment involves:

- ◆ Capacity Building and Specialist Skill Development
- ◆ Audit Planning

8.1 Skill Development

Since privatisation is usually a complex and sensitive process, it is essential for the Principal Audit Officers to appreciate the context in which the sale is being carried out as well as weigh the implication of the audit observations. In order to build up appropriate competencies, it is desirable to focus upon the following:

- ◆ Identification and imparting of specialist skills and building up institutional competence by developing the following skills in the selected core groups identified for carrying out such audit.
- ◆ Contractual and legal skills
- ◆ Knowledge of commercial accounting, reconstruction and amalgamation of companies, valuation methods, sale process, etc.
- ◆ Financial, analytical and economic skills
- ◆ Necessity to induct some skilled auditors from the Commercial Audit Wings concerned for developing a competent and informed Core Group in the Civil Wing entrusted with the audit of disinvestment.

8.2 Audit Planning:

Depending on the complexity, scale and volume of a particular disinvestment, audit may be properly planned to cover all aspects starting from the objectives of sale \ disinvestment, pre-sale restructuring, sale procedure, with special emphasis on transparency requirements and achievement of sale objectives. The planning would often include careful research to identify the key influencing factors in the disinvestment process. Before

embarking on an audit of disinvestment, a good background of the business entity being divested is essential which would include the following:

- ◆ Understanding of the business and operations of the company
- ◆ Knowledge of the financial performance of the company in the recent past
- ◆ Knowledge of ongoing and future expansions
- ◆ Knowledge of future prospects in respect of critical parameters of business of the company
- ◆ Knowledge of strengths and weaknesses of the company
- ◆ Knowledge about comparable companies in India and abroad

Equipping the auditor with adequate knowledge at the planning stage would help in retaining the focus on key issues and facilitates audit examination in the right perspective.

8.3 Methods of Disinvestment

Trade Sale:-Direct Sale of business in state ownership to another business. This includes joint ventures, part sales and strategic sales.

Management & Employees Buy Out:-When the business is sold to its management and \ or employees giving them control of future management.

Mass Privatisation:-The term usually refers to a programme of widespread privatisation, which may include the broad participation of public as investors, and is often part of a rapid move away from a command economy towards a market oriented economy.

Public Auction:-Public Sale at which business is sold to the person offering the highest bid.

Flotation:-It signifies sale of shares to individuals, financial institutions or private sector business, which can then be traded in the market.

Liquidation:-It would involve selling all assets of an enterprise instead of selling it as a going concern.

Private Placement:-In private placement, the company or a controlling stake is sold to a limited number of investors (generally institutional investors or joint ventures).

Audit could, however, examine whether all options were considered before deciding upon a specific sale methodology for the PSU to be divested. Audit would also examine the process for selection of PSUs for disinvestment and the extent of disinvestment.

8.4 Process of Disinvestment:

Audit may review the entire process of disinvestment so as to ensure that it is transparent, fair and consistent and contains adequate safeguards to protect Government's financial interests.

Pre-sale Restructuring:

Audit may examine the pre-sale restructuring, if any, which may include, debts written off or converted to equity \ new debts, splitting of a large PSU into smaller units, with a view to ensure more competition in post-sale scenario. Audit may assess the impact of such restructuring on the sale price of the PSU.

Appointment of Advisors:

Audit may examine the process followed by the Government in:

- ◆ Identifying the areas for which specialist and impartial external advice was required
- ◆ Steps taken to secure such advice in a cost-effective manner
- ◆ Ensuring selection of competent sale advisors having requisite industry knowledge
- ◆ Ensuring that the advisors are free from any conflict of interest in the business being sold

Appointment of Consultant:

Audit may examine the connected records to ensure that:

- ◆ Appropriate procedure was followed for appointment
- ◆ Consultant chosen has the requisite experience in the relevant field
- ◆ There were no deficiencies in execution of Agreement
- ◆ There was no deviation from the terms of payment

Appointment of Global Advisor (GA)

A Global Advisor is appointed to assist the government in the implementation of the entire process of disinvestment.

Audit scrutiny may focus on:

- ◆ Selection procedure followed for the selection of Global Advisor so as to maximise the competition in bidding process
- ◆ Evaluation of technical and financial bids in accordance with pre-determined weightage assigned to each criterion and manner of short listing of bidders

- ◆ Negotiation carried out with short listed bidders to get maximum value for money
- ◆ Terms and conditions of the Agreement signed with the Global Advisor to examine that the interest of Government was safeguarded
- ◆ Reasonableness of the fees paid including right and transparent incentives for optimising GA's performance.

Appointment of Intermediaries:

The records relating to their appointments may be examined in audit to ensure that:

- ◆ The necessity for their appointment was justified
- ◆ The selection procedure has been transparent and fair
- ◆ Terms and conditions ensured cost effectiveness
- ◆ Time allowed was adequate
- ◆ Government made their best use by ensuring that they carried out their respective duties diligently.

Pre-sale valuation:

It is necessary to establish in audit that the pre-sale valuation

- ◆ was based on appropriate; consistent, reliable and valid assumptions
- ◆ was arrived at, independent of the buyer and the management of the business being sold
- ◆ was done in accordance with the accepted principles of business valuation
- ◆ served as a useful guide in appraising bids and in negotiating the final sale

Asset Valuation Method:

Audit may examine the asset valuation to comment on:

- ◆ whether the asset valuer had verified the entire inventory physically and completed the valuation transparently and accurately.
- ◆ Whether any assets have been left out without an appropriate explanation
- ◆ Whether the non-core assets were sold in the most cost effective manner
- ◆ Manner of working out depreciation and validity, reasonableness and consistency of assumptions.

Discounted Cash Flow (DCF) valuation Method

Audit may confine itself to the examination of:

- ◆ the reasonableness, validity, consistency and reliability of the assumption

- ◆ effective use of sensitivity analysis for those parameters where predictions cannot be made with reasonable certainty
- ◆ proper identification and assessment of non-core assets.

Comparable Companies Method:

Audit may examine the comparability of such companies and use of all relevant factors including various financial ratios for comparison.

Fixation of Reserve Price:

Audit may look into this aspect to ascertain the reason for fixing or not fixing a reserve price, the results of various valuation methods and their use for determination of reserve price and its relationship with the final sale price obtained, with a view to ensure that:

- ◆ the process was transparent and targeted for obtaining the best price
- ◆ necessary confidentiality was maintained to secure the best price
- ◆ requisite approvals were obtained

8.5 Selection of Strategic Partner and Bid Evaluation:

Audit examination may include the following issues:

Marketing of business: Adequacy and effectiveness of the steps taken by the government for marketing the business globally for obtaining maximum value from sale along with the cost incurred in the entire process

Information to potential bidders: The completeness and consistency of information provided to the bidders through the PIM, DIM, and data room inspection. This is important to get the best price for the business and maintain healthy competition at all stages

Role of Management \ Employees: Whether the management \ employees of PSU acted in a manner, which effectively supported the integrity of the sale process and served the best interest of the Government.

Selection of bidders: Selection of bidders at each stage may be examined in audit to ensure that all requirements relating to the prescribed procedure in regard to use of specific forms, time limits and earnest money deposits; proper documentation; requisite approvals and transparency were adhered to, and all exclusions were unquestionable.

Bid Evaluation: This is likely to be a technically demanding area for audit because various objectives of sale may be in conflict with one another or may not be measurable easily leading to application of subjective or informal criteria by the Government. While balancing the weightage assigned to measurable (like price) and qualitative (like business

potential) criteria, Government may be accused of arbitrariness and impropriety. Therefore, it is important to ascertain in audit that:

- ◆ Criteria for evaluating bids were developed keeping in view the objectives of sale
- ◆ The process for short-listing the bidders was well planned for facilitating a successful outcome of sale
- ◆ Evaluation was done consistently and in accordance with predetermined criteria \ procedure in a transparent manner.

Negotiations: Audit may examine the negotiation process to ensure that the Government's interest was protected and that no undue advantage was allowed to any bidder at any stage of bidding or negotiation.

Final price: It may be seen in audit how the valuation done by the appointed advisors was used for fixing Reserve Price and whether any `control premium` was added in case of management control being transferred for comparing the same against the final price at which business was sold.

Payments \ Cost of Sale: Audit may critically examine the Government's explicit need for appointing various advisors as also the method adopted for their appointment. The relation between the payment to be made and the Reserve Price \ Gross Sale proceeds or any other criteria fixed, may be examined to ensure that Government's interests were protected at any point of time, and that the process was transparent so that subsequent deviations in sale conditions \ methods, if any, did not result in undue benefit to the advisors without commensurate benefit to Government \ tax payers and that all additional expenses incurred by the external advisors beyond the agreed budget were fully justified and had requisite approvals.

Audit may also examine:

- (a) **Confidentiality:** the extent to which the confidentiality of the entire process was ensured and the arrangements in force for the purpose.
- (b) **Documentation:** whether the entire process was documented and the meetings were properly minted.

CHAPTER 9

AUDIT IN EDP ENVIRONMENT

In the context of IT systems, there are two types of controls - General controls and Application controls. Some of the significant Audit Checks involved are listed below.

(i) General Controls

1. Organisation and Management controls

- Verify if there is a formal IT strategy and detailed tactical plans and see if these are in line with the stated business objectives
- Identify major IT units
- Verify if policies, standards, procedures and methodologies have been approved for controlling IT

2. Separation of duties

- Examine organisation chart to determine adequacy of segregation of duties

3. Physical and logical access controls

- Verify if there is a formal IT Security Policy and Security Programme for the organisation
- Check if appropriate logical access safeguards for programmes and data have been built in, and if these are being maintained and updated

4. System development controls

- Verify if an adequate audit trail has been built into the system

5. Programme amendment controls

- Verify if there are formal procedures for management authorisation of amendments, thorough testing before live implementation, management review of the resulting changes and adequate documentation of the amendments
- Verify if amendment schedules have been specified to allow time for adequate installation and testing of the new hardware and software
- Verify if before implementing the amendments various manuals have been suitably modified
- Ascertain if the time schedule for affecting the amendments was adhered to

6. Business continuity planning

- Check if procedures for backup are adhered to in practice and the backed up data is stored off-site in a secure place

(ii) Application controls

1. Input controls

- Identify the main inputs to the application
- Check if there are procedures for authorisation of input data; conduct a test check of authorisations
- Verify the adequacy of checks (manual and computerised) for validation of data
- Verify the adequacy of procedures for ensuring uniqueness and completeness of data e.g. control totals; cancellation of documents
- Verify procedures for handling incorrect data and its re-input (after correction) to the system

2. Processing controls

- Check the controls for validation of completeness and accuracy of data at each stage of processing
- Check procedures for error handling at each stage of processing
- Check if there are procedures for periodically verifying integrity of data tables e.g. referential integrity checks, periodic reconciliation with independently held records

3. Output controls

- Check the controls for ensuring accurateness and adequacy of outputs, e.g. overall reconciliation of output to inputs
- Check if there are controls to ensure that outputs are adequately safeguarded before distribution, and that these reach the proper destination

4. End user computing controls

- Check whether sensitive information is protected adequately through encryption, use of passwords etc.
- Check if there are procedures for backing up data, and if these are adhered to in practice
- Check the adequacy of support services for maintenance and repair

5. Use of external IT suppliers

- Examine the contract between the IT supplier and the organisation and see if the interest of the audited entity organisation have been safeguarded

- Examine the Service Level Agreement (SLA) and see whether the levels of service agreed to by the IT provider are appropriate, and whether these are adhered to in practice
- Examine the controls instituted for ensuring data security, especially confidentiality

CHAPTER 10

AUDIT QUALITY MANAGEMENT

Headquarters' office has decided (June 2009) to operationalise Audit Quality Management framework (AQMF) for Indian Audit and Accounts Department from 2010 onwards. Audit Quality Management framework is mapping of various existing Key Instructions to be employed (KIEs) for audit of quality assurance viz. the C & AG's (DPC) Act, Auditing Standards and some of the Manuals and guidelines issued by the Headquarters office. While the framework brings out various measures required to ensure quality control and assurance in audit, this has to be read with and supplemented by auditing standards, existing audit manuals guidelines and instructions to have a complete and exhaustive description of auditing principles, processes and practice followed in different streams of audit across the department. Respective wings \ streams of audit like civil, defence, revenue, commercial, railways, scientific etc formulate internal instructions in accordance with the principles outlined in the framework and consistent with auditing standards, existing audit manuals, guidelines etc. Thus, the framework lends itself to continuous upgradation in line with the technological changes and development of new methodologies and practices. Continuous improvement in the quality of audit by focusing on the needs of clients and stakeholders is the underlying principle behind the audit quality management system or framework.

Audit Quality Management framework generally consists of five major elements of (i) leadership and direction, (2) human resources management, (3) audit management, (4) clients and stakeholder relations and (5) continuous improvement.

The framework is further divided into two broad sections:

I. Audit Planning, Execution, Reporting and Follow up.

a) Audit Planning

Audit planning is expected to be strategic in that it fits into the long term and short term goals of audit. These goals need to be identified and framed in consonance with the overall vision and Mission statement of the Department. Within the strategic plan for audit, an annual operational plan for all audits to be conducted in a financial year is drawn up in the field offices. The annual audit planning broadly comprises- risk assessment, selection of

units, assignment planning etc. Electronic database of audited entity profiles may be maintained which is used as tools such as risk assessment techniques to enable an objective and unbiased selection of audited entity units. The audit plan may be based on a clear assessment of risk, materiality and priority. Once the selection of audited entity unit has been made, specific audit objectives may be drawn up. This could include reporting compliance with rules and procedures, forming an opinion on the financial statements, and assessing the performance of the audited entity and its programme. Audit criteria and evidence required to be gathered are to be decided upon following the audit objectives. Audit criteria can be broadly defined as a benchmark or a standard to assess the work of the audited entity on financial statements, compliance and performance related issues. Key risk areas may be identified for focusing attention during the audit and scientifically designed sampling techniques used for determination of sample size. Standards formats & check lists may be developed and used to ensure uniformity and focus in audit approach.

b) Audit Execution:

The audit execution process broadly includes the following:

- Entry conference;
- Determination of the audit approach;
- Developing and executing audit test through evidence gathering, evaluating evidence, framing audit opinions;
- Developing findings and ensuring that replies \ responses from the management are received;
- Developing recommendations; and
- Exit conference.

c) Audit Reporting and Follow up

Audit product includes all reports \ performance review \ comments \ opinions \ findings that emerge from the audit process and its follow up. All findings may be evaluated in the context of the audit evidence gathered and the response of the audited entity. Observations and conclusions are expected to be logical and based on valid audit evidence. Audit report may comment specifically on the audit objectives, scope and methodology and the results of the audit which include findings, conclusion and recommendations. Audit

recommendations may be framed in the manner suggested in separate guidelines issued by the Department. Similarly, reporting may be in accordance with the Reporting Standards of the Department.

II. Continuous improvement through Technical inspection, Peer Review and Lessons Learnt process

Post audit- technical inspections, internal audit and peer review are other mechanisms of self-assessment to indicate whether quality procedures are functioning effectively and for identification of steps needed to further improve the quality of audit. A system of self-evaluation whereby audit teams may review audit practices through post-audit discussions is an important quality assurance process. The purpose of establishing continuous lessons learnt process is to help ensure consistent quality in audits and improve the department's processes on a continuous basis.

All the five broad parameters of quality management processes have been further divided into various 'quality management elements' (QMEs). For example, in the case of parameter on 'audit management' the QMEs include audit planning, staffing for audit, conducting of audit, evidence, documentation, reporting etc. Each quality management element has been linked to the Key instruments employed (KIE) i.e. the reference has been made to Constitution, C & AG's (DPC) Act, Auditing Standards, Manuals, guidelines etc.

The operationalisation of AQMF would involve issue of appropriate internal instructions to various Functional Wings and in turn by each Functional Wing, to field offices under their control to ensure appropriate customization of the AQMF. During the course of implementation of the instructions, a clear hierarchy of audit related literature would be established as follows:

- Level I The constitutional provisions and the C & AG's (DPC) Act and Regulations.
- Level II Standards and generic manuals \ guidelines brought out by Audit wing for universal application
- Level III Supplementary manuals of instructions and guidance and practice notes brought out by each Functional wing expounding upon Level I and Level II literature \ standards.
- Level IV Local manuals \ circulars \ orders brought out by each field office to supplement Level III literature may be consolidated annually in manual or

electronic form and complied in accordance with the broad elements of the AQMS Framework

The framework described above incorporates measures and practices which and when followed would provide a reasonable assurance that audits are conducted in a manner to ensure high quality and meet stakeholder's expectations. The premises set out are generally drawn from ASOSAI guidelines on audit quality management system.

The audit quality management system- Mapping of guidelines is given in the following table:

Parameters	Quality Management Element(QME)	Key Instrument employed (KIE)	Reference
I- Leadership and Direction	A- Tone at the top	1- Constitution of India 2- CAG's DPC Act 3-Companies Act, 1956 19-Any other relevant KIE	Article 148-151 of the constitution of India.
	B-Vision, Mission, Core Values and Auditing Standards	4- Regulations on Audit and Accounts 2007 5-Auditing Standards 6-MSO (Audit) 7-Financial Attest Audit Manual 8-Performance Audit Guidelines 19- Any other relevant KIE	Chapter-1, 2 & 4 of Regulations, 2007. Chapter-I of Auditing Standards Chapter-I of Section II Chapter-1 & 2 of FAAM Chapter-I of PA guidelines.
	C-Strategic Direction and Planning	4- Regulations on Audit and Accounts 2007 5-Auditing Standards 6-MSO (Audit) 7-Financial Attest Audit Manual 8-Performance Audit Guidelines 11-PPP-Auditing guidelines 19- Any other relevant KIE	Chapter-3 of Regulations, 2007. Para4, Chapter-III of Auditing Standard Chapter-I of Section II Para 2.1.25 Chapter-12 & 3of FAAM Chapter-II of PA guidelines Section-1 of PPP- Auditing guidelines
	D- Strategic Audit Planning	-do-	-do-
	E- Portfolio and Risk Management	17-Risk analysis-ADAI (RS)'s order 19- Any other relevant KIE	ADAI (RS)'s DO letter No.1127 \ Rep(S) \ 138-2002 dated 4.10.2002 addressed to all PAGs \ AGs along with Proforma for Audit Plan.
II-Human Resources Management	F-Resourcing and Recruitment	15-MSO (Admn) Vol.II 16—MSO (Admn) Vol.III 19- Any other relevant KIE	Para 3.1-IA&AS, 4.1,4.8,4.10,4.12-Gr.B officers including Sr. P.A, 5.4 Section officer,6.2-Clerical staff, Para 7.2-7.6 Divisional Accountants and Para 8.4-Gr.D Details recruitment procedure

	G-Training and Capacity Building	15-MSO (Admn) Vol.I 12-Training Manual 19- Any other relevant KIE	Para 3.3-IA&AS, 6.3-Clercial staff 7.7 Divisional Accountants Chapter-I of Training Manual
	H- Performance Management Appraisal	15-MSO (Admn) Vol. I 19- Any other relevant KIE	Para 3.30-IA&AS, 10.11-Gr.B to Gr. D Officials.
	I-Personnel welfare and Benefits	17-Orders of DOPT, Ministry of Personnel, Public Grievances and Pensions, Government of India 19- Any other relevant KIE	Orders issued from time to time.
III-Audit Management	J-Audit Planning	6-MSO (Audit) 7-Financial Attest Audit Manual 8-Performance Audit Guidelines 11-PPP-Auditing Guidelines 13-Guidelines on CCO based Audit 19- Any other relevant KIE	Para2.1.25 page 19 Chapter 2: Strategic Planning and selection of subject. Chapter 3 of FAAM Chapter-3 & 4 of PA guidelines
	K-Staffing for the Audit	18-OAD Manual of respective field offices	
	L-IT Tools	4- Regulations on Audit and Accounts 2007 7-Financial Attest Audit Manual 10-IT Audit Manual Software support tools-IDEA-5 19- Any other relevant KIE	Chapter 11 of Regulations 2007 Appendix-II of FAAM
	M-Other tools and guidance	7-Financial Attest Audit Manual 9-Internal Controls Evaluation Manual 13- Guidelines on CCO based Audit 12 \ 18 Manual for each wing 19- Any other relevant KIE	Chapter 10 of FAAM
	N-Conducting Audit	4- Regulations on Audit and Accounts 2007 6-MSO (Audit) 7-Financial Attest Audit Manual 10-IT Audit Manual 12 Manuals relating to each wing 19- Any other relevant KIE	Chapter 5-10 of Regulations 2007 Chapter 13 of Regulations 2007 Section II to VI of MSO Audit Chapter-4 of FAAM
	O-Consultations and advice	Orders issued from time to time 19- Any other relevant KIE	
	P- Supervision and review	4- Regulations on Audit and Accounts 2007 5-Auditing Standards 7-Financial Attest Audit Manual 8-Performance Audit Guidelines	Chapter 4(R.No.27-29)of Regulations 2007 Chapter-III of Auditing Standards Chapter-8 of FAAM Chapter-7 of PA guidelines.

		19- Any other relevant KIE	
	Q-Evidence	4- Regulations on Audit and Accounts 2007 6-MSO(Audit) 7-Financial Attest Audit Manual 8-Performance Audit Guidelines 19- Any other relevant KIE	Chapter 12 of Regulations 2007 Para 2.1.10 Audit Evidence Chapter-4 Para 4.5 – 4.20 of FAAM Chapter-8 of PA guidelines.
	R-Documentation	7-Financial Attest Audit Manual 8-Performance Audit Guidelines 19- Any other relevant KIE	Chapter-6 of FAAM Chapter-5 of PA guidelines.
	S- Reporting and Follow Up	4- Regulations on Audit and Accounts 2007 5-Auditing Standards 6-MSO(Audit) 7-Financial Attest Audit Manual 13- Guidelines on CCO based Audit 19- Any other relevant KIE	Chapter 4(R.No.30-32)of Regulations 2007 Chapter 14 & 15 of Regulations 2007 Chapter-IV of Auditing Standards Chapter -4 of Section-VII Chapter -7 of FAAM Para 22 of Annexure-A
IV-Client and stakeholder Relations	T-Communicating audit message	4- Regulations on Audit and Accounts 2007 6-MSO(Audit) 19- Any other relevant KIE	Chapter 14 & 15 of Regulations 2007 Chapter -4 of Section-VII
	U-Feedback from clients and stakeholders	6-MSO (Audit) 19- Any other relevant KIE	Chapter -4 of Section-VII
	V- Relationship between legislative committee and SAI	4- Regulations on Audit and Accounts 2007 6-MSO(Audit) 19- Any other relevant KIE	Chapter 15 of Regulations 2007 Chapter -4 of Section-VII
V- Continuous improvement	W-Internal Audit	6-MSO(Audit) 15-MSO (Admn) Vol. I 19- Any other relevant KIE	Section-III of Chapter 24 Para 1.17 of Chapter-1
	X-Internal quality assurance	Inspection wing at Headquarters 19- Any other relevant KIE	
	Y-Peer Review	14-Quality Assurance through Peer Review 19- Any other relevant KIE	
	Z-Self evaluation \ Lesson learnt	Reports of Internal Audit, Inspection by DG., Peer Review and important points circulated by DI Inspection 19- Any other relevant KIE	

® **Key Instruments Employed codified by Arabic numbers, mentioned below:**

- Constitution of India
- CAG's (DPC) Act
- Companies Act, 1956
- Regulation on Audit and Accounts 2007.
- Auditing Standard
- MSO (Audit)
- Financial Attest Audit Manual (FAAM)
- Performance Audit Guidelines
- Internal Control Evaluation Manual
- IT audit Manual
- Public Private Partnership (PPP) –Public Auditing Guidelines
- Functional Wing Manual (Commercial \ Railway Audit \ Defence Audit Training etc)
- Guidelines on CCO based Audit
- Quality Assurance through Peer Review
- MSO (Admn) Vol. I
- MSO (Admn) Vol. III
- Orders of GOI \ Headquarter
- Other local Manuals
- Any other relevant KIE

CHAPTER 11

OIL REFINING AND MARKETING COMPANIES

11.1 Introduction: The Oil Refining and Marketing companies coming under the audit purview of this office are:

1. Indian Oil Corporation Marketing Division, Southern Region
2. Bharat Petroleum Corporation, Marketing Division, Southern Region
3. Hindustan Petroleum Corporation, Marketing Division, Southern Region
4. Chennai Petroleum Corporation Ltd
5. Kochi Refineries Ltd

The main objectives of these companies are as follows:

- to purchase or acquire, manufacture, refine, treat, reduce, distil, blend, purify and pump, store, hold, transport, use, experiment with, market, distribute, exchange, supply, sell and otherwise dispose off, import, export and trade and generally deal in any and all kinds of petroleum and petroleum products, oil, gas and other volatile substances, asphalt, bitumen, bituminous substances, carbon, carbon black, hydrocarbon and mineral substances and the products or by-products which may be derived produced, prepared, developed, compounded made or manufactured therefrom and substances obtained by mixing any of the foregoing with other substances.
- to carry on all or any of the businesses of consignees and agents for sale of dealers in and refiners of petroleum and other oils products and other kind of businesses, wharfingers, merchants, carriers, ship owners and charterers, light men, barge owners, factors and brokers in all or any of their branches and to treat and turn to account in any manner whatsoever any petroleum or other oil or any product thereof.
- to purchase or otherwise acquire and to import, store, export, trade and deal in any kind of oil whether mineral, animal or vegetable
- to carry on any other business which may seem to the company as capable of being conveniently carried on in connection with any of the objects specified above or

calculated directly or indirectly to enhance the value of or render profitable any of the company's property or rights.

11.2 Major Activities:

The major activities of the Companies have been grouped under Refinery and

Marketing Divisions

Refinery Division: The main activity of the Refinery Division is to process crude oil and deliver the finished petroleum products to Marketing Division for distribution. Distillation, Catalytic Reforming and conversion of residue are the main processes involved in the refinery. Various products from the refinery are Fuels such as Motor spirit, High Speed Diesel, Light Diesel Oil, Naphtha, LPG and Kerosene, Bunker fuel, lubricants and bitumen etc.,

Marketing Division: The main activities of the marketing division are to store, distribute and market the finished products from the refinery. Marketing division also deals with products purchased from other marketing companies.

Transportation: The products of the refineries of the companies are transported through pipelines, by road trucks, coastal movements and rail wagons.

- A. INDIAN OIL CORPORATION LIMITED (IOCL)**
- B. BHARAT PETROLEUM CORPORATION LIMITED (BPCL)**
- C. HINDUSTAN PETROLEUM CORPORATION LIMITED (HPCL)**

11.3 Introduction:

A. Indian Oil Corporation Limited (IOCL): The Company was formed on 1st September 1964 by amalgamating Indian Refineries with the Indian Oil Company Ltd. IOCL owns and operates 10 out of 20 refineries in India with a refining capacity 65.7 MMT per Annum (i.e. 125 million barrels per day). The turnover of the company was Rs.2,71,074 crore with profit of Rs.10221 crore. IOC cross-country network of crude oil and product pipelines spanned 10,899 kms. IOC has 18643 petrol & diesel stations including 2947 Kisan Seva Kendras. 35600 Sales points are backed for supplies by 140 Bulk Storage Terminals \ Depots, 98 Aviation Fuel Stations and 88 LPG Bottling plants.

The Company is headed by Chairman and seven whole time Functional Directors and 2 part time Non-Executive Government Directors. The organisation set up of IOC is divided into 5 functional divisions namely Refineries, pipelines, marketing, R&D and Corporate Office. The Corporate Office, Refineries & Pipelines Divisions are located at New Delhi. Registered Office and Marketing HO are located at Mumbai. The R&D division is functioning at Faridabad. The Corporation's workforce strength was over 34,105 as on 31st March 2011.

In order to gain access to new business, the Corporation has formed a number of Joint Venture Companies (JVCs). These JVCs enable the Corporation to undertake business activities that would have otherwise been uneconomical or risky to undertake alone. It also provides the Corporation strategic insights into related areas of business where future exists. As on 31st March 2011 there are 16 JVCs and 6 group Companies. The main area of operation of JVCs is to blend, manufacture and sell synthetic, semi-synthetic and mineral based lubricating oils, greases and hydraulic fluids, related products and specialties' for Defence and Civil Aviation users, training, consultancy and services in upstream and downstream of hydrocarbon sector.

B. Bharat Petroleum Corporation Limited (BPCL) : Government of India acquired the equity of Burma Shell Refineries Limited (BSL) in 1976 and the assets and liabilities of Burma Shell Oil Storage and Distributing Company of India Limited (BSML) through the Burma Shell (Acquisition of undertaking in India) Act, 1976 and formed a new company called Bharat Refineries Limited and the name was changed as Bharat Petroleum

Corporation Limited (BPCL) with effect from 1st August, 1977 with two major Divisions namely, Refinery Division and Marketing Division.

Bharat Petroleum Corporation has 2 refineries at Mahul, Mumbai and Ambalamugal, Kochi. It owns 3 Lubricant plants at Mumbai, Budge-Budge and Tondiarpet. BPCL is setting up a 6 MMTPA capacity refinery project Bharat Oman Refineries Limited at Bina in Madhya Pradesh. Capacity expansion cum modernization project – phase II at Kochi Refineries Limited (from 7.5 MMTPA to 9.5 MMTPA) was completed in June, 2009. Sales turnover for year ended 2010-11 was 166,038.80 Crore and the market sales including exports was 32.19 MMT. Net profit for the year 2010-11 was Rs.1742.06 Crore.

Numaligarh Refinery Limited, a Mini Rathna company incorporated in 1993 with a capacity to refine 3 MMTPA in Assam and Bharat Petro Resources Limited, incorporated in 2006 are the 2 subsidiaries of BPCL.

Petronet LNG Limited (PLL), Indraprastha Gas Limited (IGL), Sabarmathi Gas Limited (SGL), Central UP Gas Limited (CUGL), Maharashtra Natural Gas Limited (MNGL), Bharat Stars Services Pvt. Ltd (BSSPL), Bharat Renewable Energy Limited (BREL), Matrix Bharat Marines Services Pvt. Limited (MBMS), Petronet India Limited (PIL), Petronet CCK Limited (PCCKL) and Delhi Aviation Fuels Facility Limited (DAFFL) are the joint venture companies of BPCL

Bharat Oman Refineries Limited (BORL), promoted by BPCL, has recently commissioned a 6 MMTPA grass roots refinery at Bina in Madhya Pradesh. Besides, crude oil import facilities consisting of a Single Point Mooring (SPM) system and Crude Oil Storage Terminal (COT) have been set up at Vadinar in Gujarat.

There were 13,837 employees in BPCL as on 31.3.2011. The Board of Directors consisted of 5 whole time Directors, 2 part time ex-officio Directors and 5 part time independent Directors. Nomination of additional 2 part time independent directors was taken up with the Government.

Government of India owns 54.93% of the share capital and others (Government of Kerala 0.86%, BPCL Trust for Investment in shares 9.33%, UTI 1.20%, LIC 10.57%, Other financial institutions 7.74%, FII 7.97%, Private Corporate bodies 4.37%, NRIs 0.09%, Employees 0.36% and Indian public 2.58%) own the rest.

C. Hindustan Petroleum Company Limited: Government of India acquired 74 % equity shares of Esso Standard Refining Company of India Limited (ESRC) in 1974 through ESSO (Acquisition of undertakings in India) Act, 1974 and amalgamated Lube India Limited and formed a new Company called Hindustan Petroleum Company Limited. Later in 1978, Caltex Oil Refining (India) Limited was also amalgamated with HPCL.

HPCL has two refineries at Mumbai and Vishakhapatnam. Turnover of the company for the year 2010-11 was 132,670 crore. The company processed about 14.75 MMTs crude during the year 2010-11.s Profit after tax was Rs.1539.37 crore.

There were 11248 employees in HPCL as on 31st March 2011. The Board of Directors consists of 5 whole time Directors, 2 Ex-officio part time Directors and 3 non-official part time Directors.

Government of India holds 51.11% of the shares and rest by others (Financial Institutions 18.55%, FIIs 7.22%, Banks 0.45%, Mutual Funds 10.07%, Employees 0.10%, others 12.23%)

HPCL-Mittal Energy Limited (HMEL), HPCL-Biofuels Limited (HBL), CREDA-HPCL Bio fuels limited (CHBL), South Asia LPG Co Pvt. Limited (SALPG), Hindustan Colas Limited (HINCOL), Mangalore Refinery & Petrochemicals Limited (MRPL), Prize Petroleum Co. Limited (PPLC), Petronet India Limited (PIL), Petronet MHB Limited (PMHBL), Bhagyanagar Gas Limited (BGL) and Aavantka Gas Limited (AGL) are the joint venture companies of HPCL.

11.4 Illustrative list of important auditable units, functions and audit checks:

11.4.1 Refinery:

Functions: Processing of Crude oil and production of various petroleum products.

Audit checks:

- Verification of Crude Purchase Agreements
- Examination of Shipping \ Charter Hire Agreements
- Scrutiny of payment of port dues \ shipping charges \ demurrages etc.
- Review of capacity utilisation of individual plants including LPG plants
- Review of fuel and loss percentage with standards
- Review of consumption of chemicals, catalysts, power, water etc.
- Verification of costing records

- Review of inventory of crude, chemicals, catalysts, finished products etc.
- Examination of up-liftment of products by direct customers
- Scrutiny of implementation records of new projects and modification \ revamping of existing projects \ DFR \ contracts \ purchases \ surplus project materials \ commissioning records etc.
- Verification of entitlement records
- System of allowing of discounts \ credit periods with company`s policy
- Review of under and over recoveries
- Review of subsidies receivable from Central and State Governments including discounting Government bonds
- Claiming of refunds \ duty draw-backs \ other export and import incentives from government agencies
- Receipt of interest on security deposits held with electricity boards on HT connections

11.4.2 Terminals \ Despatch units

Functions: To receive bulk products from Refinery \ ships \ pipelines \ rail and despatch the same to Depots \ Direct customers \ AFS \ retail outlets

Audit checks:

- Review of MIS Reports
- Review of bulk receipts records \ despatch records
- Scrutiny of stock loss statements as compared with standards
- Reconciliation of physical stock with system stock
- Review of tankage utilisation
- Verification of idling of assets
- Verification of contracted load with actual power consumed
- Scrutiny of records on materials in transit
- Products down-gradation \ off specification departments loss thereof
- Review of OMCs transactions and balances
- Calibration records of tanks \ weigh bridges
- Verification of tank wagon \ TT utilisation \ payment \ demurrage \ missing wagons \ unconnected wagons records

- Railway claims to be verified for any long pending items.
- Examination of Excise \ Customs documents including disputes, show cause notices etc
- Review of transportation contracts.
- Utilisation of owned and lease hold land and rent payable
- Review of legal cases

11.4.3 Depots

Functions: To receive bulk products from terminals \ despatch units \ refineries and despatch the same to retail outlets \ direct customers' \ stock transfers

Audit Checks:

- Review of bulk receipts \ despatch records
- Review of stock loss records compared with standards
- Reconciliation of physical stock with system stock
- Review of tankage capacity utilisation
- Verification of idling of assets
- Verification of contract load for power
- Verification of records of Materials in transit
- Scrutiny of OMCs and hospitality transaction including outstanding balances
- Verification of tank wagon \ TT utilisation \ payment \ demurrage \ missing wagons \ unconnected wagons records
- Reconciliation of records relating to recoveries from distributors' \ transport contractors etc.
- Verification of cash and credit policy relating to dealers \ direct customers
- Scrutiny of cylinder inventory records
- Scrutiny of spurious cylinders, diversion and its investigation and writing off

11.4.4 Aviation Fuelling Stations

Functions: receipt of ATF from source locations, storage \ sale \ discounts \ collections including availing duty drawbacks on international fuelling etc.

Audit checks:

- Scrutiny of receipts \ storage \ despatch records
- Scrutiny of stock Loss records
- Reconciliation of physical stock with system stock

- Review of materials-in-transit records
- Verification of calibration records of tanks \ weigh bridges
- Scrutiny of down-gradation records, evaluation of losses
- Verification of discounts \ credit offered with sales volumes and company`s policy
- Scrutiny of recoveries from national as well as international carriers

11.4.5 Aviation Department

Functions: Monitoring sales performance \ market shares \ maintaining centralised customers account like Airways, Air India etc; monitoring \ renewal of cornet consumer cards \ credit and discounts \ outstanding balances\ Excise \ sales tax related issues; legal cases; review of the files connected with stock loss.

Audit checks:

- Scrutiny of payments received for the supplies
- review of performance of legal cases of debtors
- Scrutiny of quality control reports
- Scrutiny of performance report of AFS
- Scrutiny of stock loss in AFS
- Verification of excise, customs and sales tax payments
- Discounts and credit periods offered vis-à-vis sales
- Review of outstanding balances
- duty drawback claims for supplies to international flights

11.4.6 Engineering and Projects

Functions: To execute projects of various sizes for all the functionaries of marketing set up

Audit checks:

- Review of MIS reports
- Scrutiny of DFR \ DPR of big projects
- Scrutiny of Project approval notes in respect of small projects
- Scrutiny of contracts \ purchases folders
- Scrutiny of testing \ commissioning reports
- Scrutiny of Extra \ escalation claims of contractors
- Recoveries for material supplies, TDS, liquidated damages, penalties etc.

- Verification of surplus project materials and its utilisation
- Scrutiny oil Project inventory reconciliation etc.

11.4.7 Materials Department

Functions:

To arrange for the revenue \ capital materials requirement of all functions \ departments

Audit checks:

- Review of MIS reports
- Studying tendering system
- Scrutiny of Tender Committee approvals and issue of Purchase orders
- Scrutiny of records for materials-in-transit
- Verification of stores records relating to receipt \ issue \ balance materials
- Scrutiny of age wise analysis of slow moving \ non-moving inventories
- Verification of Rejections and its financial adjustments
- Method of disposal of scrap, waste, obsolesce materials

11.4.8 Regional & Corporate Headquarters

Functions:

Formulate policies on pricing, credit, cash \ discounts, treasury management, investment, joint ventures, infrastructure development etc; To co-ordinate with Government, OMCs and other agencies; Secretarial functions; preparation of financial statements; Supply and distribution analysis; logistics, Human Resource Department; Export of Company's products; Legal functions; Real Estate management; Information system \ MIS; Internal Audit, augmentation of non-fuel revenues etc.

Audit Checks:

- Review of MIS Reports
- Review of Board and Agenda Minutes
- Scrutiny of credit policy and implementations
- Examination with reference to Government directives regarding pricing, subsidy and other controls
- Scrutiny of OMCs agreements and reconciliation

- Scrutiny of appointment of dealers and allotment of petrol pump \ LPG \ SKO distributorship etc.,
- Review of Legal cases on outstanding recoveries, real estates, customs and excise matters etc.,
- Examination of credit \ discount proposals
- Scrutiny of provision for doubtful debts \ write off
- Examination of Entitlement functions with reference to Long terms settlements and DPE \ Ministry's guidelines
- Verification of IT records for hardware and software purchase
- Review of coverage and adequacy of Internal Audit
- Review of performance of JVCs
- Scrutiny of OCC \ PPAC related records
- Examination of MOU with Government and various other agencies
- Examination with reference to compliance of SEBI \ Department of Company Affairs guidelines
- Audit of Financial Statements with reference to 619 (4) of the Companies Act
- Scrutiny of Handling contracts of Company's product with OMCs and other agencies
- Study of market trends, Research and development of new products
- Appointment of private bottlers for LPG and dealers for lubricants
- Import of capital items and export of company's products.
- Receiving of subsidies for state and central governments for SKO \ LPG
- Investigation of complaints, diversion of LPG from domestic to commercial
- Recovery of dues on non-fuel revenues, exploration of new avenues

11.4.9 Zonal Offices of HPCL \ Regional Offices of IOCL \ Territory offices of BPCL

Functions:

Implementation of policies of HO; Controlling and maintaining the functioning of Divisional Offices, Terminals and Depots under State Offices; Setting up of Retail outlets \ modernisation of equipment and upgradation of equipment as per requirement; Monitoring sundry debtors; review of legal \ arbitration cases; logistics and Finalising transportation contracts; sanctioning of discounts for promoting sales, exploring new avenues for augmenting non-fuel revenues, investigation of complaints, diversion of domestic LPG to

commercial, appointment of dealers, distributors, private bottlers for LPG, stockists for lubricants etc.

Audit checks:

- Scrutiny of Capital Budget and expenditure
- Status report on projects and their execution
- Scrutiny of legal \ arbitration cases
- MIS reports
- Sundry debtors position
- Idle assets
- Transportation payments
- Sale of scrap
- Stock reports & Stock losses
- Justification for opening and upgradation of new retail outlets
- Review of AMCs, labour contracts for supply of labour, upkeep, repairs and maintenance etc
- Review of decision on extension of credit periods, discounts, collections, outstanding etc.

11.4.10 Regional offices of HPCL \ Divisional offices under State offices of IOCL

Functions:

Functions include Inspection and monitoring the performance of Retail outlets and Kerosene dealers; entering into agreement with the landlords for purchase or leasing of lands for COCO \ Retail outlets, labour Contracts with the approval of State Office; Maintenance contracts etc.

Audit Checks:

- Review of MIS reports
- Examination of economic viability of new retail outlets
- Examination of legal cases for outstanding recoveries
- Examination of justification for enhancement of lease rents
- Inspection of reports of retail outlets to be verified for any adverse remarks
- Scrutiny of Agreements entered into with the dealers \ land lords \ COCO Retail outlets contractors and maintenance contracts

- Ensuring compliance with state \ central government departments and CCE requirements in running ROs

Documents to be seen during the accounts audit:

11.4.11 Refinery

- Unit Trial Balance (Balances of accounts operated by Refinery)
- Capitalisation summary (Project-wise)
- Element wise capitalisation
- Inventory valuation statements with reference to the costing, market value fixation, pricing etc.,
- Physical inventory records with reference to FIFO method or as the company`s accounting policy
- Expenses pertaining to the period of audit
- Depreciation \ Asset schedule to check proper capitalisation and calculation of depreciation as per schedule XIV and relevant policies of the Company
- Asset Disposal Advises to see that those assets approved for disposal are removed from the gross block
- GR \ IR items to see the genuineness of pending items of unadjusted advances \ liabilities \ in transit items etc.,
- Interest capitalisation statements
- Bank reconciliation statements
- Open items \ un reconciled items analysis and its matching
- Confirmation of balances amongst OMCs

11.4.12 Marketing

In addition to the above, the following items are to be seen:

- Closing papers and reconciliation attached to closing papers
- Agenda and Minutes for adoption of the accounts in the Board meeting
- Account closing instructions received from Head Office
- Auditors' Report
- Draft Directors Report and variation analysis with reasons
- Finance entries passed at HQ level in respect of the units for which the relevant modules were closed earlier

- Legacy items , if any, incorporated in the SAP system
- Policy decisions at HQ level affecting the financial position of the Company
- Demand notices from the statutory or legal authorities and its provision in the accounts.
- Closing entries passed by HO in respect of field offices
- Consolidated Balance Sheet \ profit and loss account.

D. CHENNAI PETROLEUM CORPORATION LIMITED

11.5 Introduction

Chennai Petroleum Corporation Limited (formerly Madras Refineries Limited) was formed in 1965 by the Government of India in collaboration with M \ s. National Iranian Oil Company and M \ s. Amoco India Inc. The refinery went on stream with the designed capacity of 2.5 MTs of crude per annum. At present, Chennai Petroleum Corporation Limited has a crude processing capacity of 6.5 MTs per Annum (MTPA) at Manali, Chennai and 0.5 MTPA of crude oil processing facility at Nagapattinam, Tamil Nadu.

11.6 Objectives

The main objectives of the Company are:

To purchase or otherwise acquire, manufacture, refine, treat, reduce, distill, blend, purify and pump for, mine, bore, extract, process, buy, market, distribute, exchange, supply, sell and otherwise dispose of import, export and trade and generally deal in all kinds of petroleum and other mineral oils, whether crude or refined, petroleum products, petrochemicals, gases etc.

11.7 Capital Structure

Authorised and paid up capital stood at Rs.400 crore and Rs.149 crore respectively as on 31.03.2003.

Government of India disinvested its entire share holding during 1992 and 2000-01 in favour of Indian Oil Corporation Limited \ Mutual Funds \ Financial Institutions \ Banks. Consequently CPCL has become a subsidiary of IOC. The shareholding pattern as on 31.03.2003 was as under:

	Rs. in crore Fig. Rs. In crore	% holding
IOC	77.26	52
Others	71.74	48
Total	149.00	100

11.8 Finance & Accounts

Records Maintained

- Vouchers for payments
- Bank book
- Daily cash statement
- Bank Reconciliation statement
- Journal vouchers
- Cash flow statements
- General ledger
- Credit \ debit notes
- Fixed Asset Register
- Final Accounts \ Schedules \ MIS reports
- Statutory Returns
- Budget \ Profitability statement
- Correspondence with Income Tax Authorities

Audit Checks

Besides financial transactions relating to oil accounts, material management, project department etc. the following points may be looked into in Audit.

- Ensure whether Bank Reconciliation statements are up-to-date and there are no unreconciled items.
- Scrutinize MIS and other financial reports
- Review correspondence with Income Tax and other Statutory Authorities
- Scrutinize debit \ credit note transactions
- Compare financial performance with Budget and analyse reasons for variations
- Review transactions relating to additions \ deletions of fixed assets
- Scrutinize schedules relating to expenditure
- Test check journal vouchers

- Review transactions relating to loans availed and investments made
- Review of cost records
- Review of foreign exchange variations and income from other sources

11.9 Crude purchase, Pricing & Insurance

Crude purchase and Pricing section is primarily intended to perform the work relating to the accounting of and payment for purchase of crude oil, insurance of plant and machinery and other assets and pricing of products. Crude purchases could be classified into three different groups.

Imported crude purchased through IOC.

Bombay High crude purchased through ONGC and

PY 3 crude purchased from Hardy exploration, ONGC, Tata Petrodine, Hindustan Oil Exploration Company Limited.

(a) Records \ registers maintained

- Methodology adopted in locating economical sources
- System of calling for quotations \ concluding of tenders
- contracts entered into for purchase of crude
- Register for chartering of vessels and arranging for insurance
- Charter party agreement with the carrier
- Review of Bills of Lading Bills of entry
- Crude intake certificate prepared at OM &S section
- Dip memos on the basis of which crude intake certificate is prepared
- Debit note from IOC towards crude payments
- Invoice from the supplier of crude
- Invoice from owner of the vessel for freight and demurrage
- Survey reports at the load port and disport
- Insurance certificate for each voyage
- Lodging of claims for shortages \ ocean losses etc
- Intimation of sailing details from IOC
- INTO bond and EX bond filed with the Customs authorities
- Statement of balances with Customs as given by Customs authorities

(b) Audit Checks:

- Check invoices in case of **imported crude**, to see whether the payments are made for net Bill of Lading quantity
- See whether the carrier has lodged a protest note with the supplier for shortages in quantity and a claim was made with the supplier.

- In case of **BH crude** whether the payment is made for the custody transfer quantity as per the annexure to the bill of lading.
- The quantity received, as per the crude intake certificate may be verified with the surveyor's report to ensure agreement.
- Whether the terms of the memorandum of agreement signed between ONGC and IOC, on behalf of CPCL are complied with.
- Whether the Crude purchase rate for imported crude is calculated as Monthly average with premium \ discount or as the Official Selling Price (OSP) as per the terms of the crude purchase agreement.
- Whether the difference between the foreign exchange rate at which the payment is made by CPCL to IOC and the actual rate at which IOC paid to the foreign supplier, is claimed from \ paid to IOC for each payment on a monthly basis.
- Whether the import parity price as per the Memorandum of Agreement between ONGC and IOC, on behalf of CPCL, is paid in case of purchase from ONGC (BH crude).
- Ascertain the arrangement as regards transportation of crude based on the terms of the purchase contract.
- Whether the exchange rate adopted for calculation of freight is as per the chartered party agreement for the voyage.
- Whether the insurance certificate is received for each voyage.
- Check whether the demurrage payment is avoidable.
- Verify the reasons and the calculation of excess hours for which demurrage payment is made from the shipping documents given by the carrier.
- Verify if the customs duty payment is made as per rates applicable as on the date when the Ex-Bond is filed with the customs authorities.
- Delay in lodging customs claims to be scrutinised.
- Verify whether wharfage is paid to the Chennai Port Trust authorities at the prescribed rates on all receipts of indigenous and imported crude oil through the port.
- Whether the payments made to clearing agents and Surveyors are as per the terms of the contract.
- Where the difference in the quantity loaded at the load port and the quantity received at port is more than the specified limits, whether claim for transit loss (ocean loss) is preferred with the carrier as per the terms of the chartered party agreement.
- Compare the onboard quantity at port with the actual shore receipt and ascertain the difference as a percentage of the Bill of Lading quantity. If the Percentage so calculated at port is more than the prescribed limit, whether the on board carried quantity, if any, has been discharged in the next voyage or recovered from the carrier.

- Whether the difference is claimed from the supplier, in case the supplier accepts the protest note.
- Whether the discount on products is sanctioned after taking into account the current \ future international prices and the demand and supply of the product.
- Scrutinise the minutes of the Pricing Committee for details such as discount proposed, effective date of discount, the validity period etc and check whether the discount terms are complied with.

11.10 Oil Accounts

This section is responsible for consolidation of dip readings, preparation of daily production statements, excise returns, crude intake \ out turn and calculation of loss percentage based on information from technical service department and co-ordination with clearing agents for filing of INTO and EX bond with Customs authorities.

(a) Records \ registers maintained

- Daily Dip statement prepared by OM&S showing the daily dip of tanks taken during 18.00 hours.
- Dip memos showing dip readings before and after despatch \ receipt, daily dip memos in respect of tanks taken at 18.00 hours, fortnightly dips.
- Product Outturn Certificates raised for despatches effected to various customers.
- Product In turn Certificates prepared for the return stream received from downstream customers.
- Copies of invoices raised for the despatches through trucks.
- Consolidated Debit notes raised for invoices.
- Delivery Slip prepared at Invoice cell showing the gross, tare and net weights, product to be lifted etc.
- Correspondences with customers.

(b) Audit Checks

- Ensure those product outturns are prepared correctly based on dip readings.
- Ensure that the details of production and calculation of fuel and loss is proper.
- Ensure that the reconciliation of opening of stock of crude processed, crude received and closing stock of crude is properly done.
- Whether a periodic reconciliation of PLA register and the General ledger is carried out.
- Whether the actual production (total throughputs and products produced) is comparable with the budgeted production estimates as given by Production Planning

department. Whether the difference in throughputs is proportional to the difference in quantity of products produced and analyse the reasons for the variation, if any.

11.11 Refinery Operations and Technical services

Records \ Registers maintained

Records relating to

- Crude oil purchase, receipt and storage - processing
- Monthly production planning reports
- Monthly production statement
- Plant-wise performance report
- Power utilisation
- Demurrage files
- Ocean loss analysis for each shipment
- Fuel and loss
- Chemicals catalysts \ platinum consumption
- Crude taken on loan
- Reconciliation of production \ movement material balance.
- Plant-wise maintenance records - work orders
- Records relating to plant shutdown
- Records relating to process engineering, general engineering and Inspection quality control optimization
- Technical service Department
- Daily stock registers for storage tanks
- Stock loss records including transit losses

Audit Checks

Apart from Audit Checks mentioned for crude purchase \ oil accounts, the following checks needs to be exercised:

- Compare crude throughput with planned and installed capacity - analyse reasons for throughput loss.
- Compare crude mix with plan and implications of the change thereof.
- Compare the actual production of petroleum products with reference to budgeted input-output ratio
- Check for off spec production \ down gradation and reasons for disposal, losses sustained therefrom

- Compare refining cost per MT of crude throughput with budget norms and analyse variation.
- Planned shutdown - unplanned shutdown of process units examine justification for unplanned shutdown.
- Reasons for demurrage payments.
- Check for avoidable payment to TNEB for not maintaining the required power factor - Fixing of minimum demand.
- Check for consumption of Chemicals \ platinum catalysts against norms.
- Fuel and loss, storage loss - Actual with norms analyse variations.
- Scrutiny of reports under Management Information system.
- The recommendation of Solomon Association incorporated - Implementation by CPCL scrutiny of results.
- Review expenditure in R&D and examine their activity reports.

11.12 Materials Management Department

Materials Management Department initiates action for purchase on receipt of indents from other departments. Processing of purchases is based on the inventory levels. Material receipts, transfers and issues and closing stocks are documented.

(a) Records \ registers maintained

- Indent
- Tender document
- Technical and commercial bids
- Statement of Technical evaluation
- Statement of Commercial evaluation
- Purchase order
- Physical verification reports
- List of non-moving \ slow moving items
- Material supplies to contractors

(c) Audit Checks

- Check whether company has a system of maintaining panel of suppliers for different items and updates their performance?
- Check the method of calling for tenders
- Check whether delegation of authority is fixed by the company for different types of purchases and the same is adhered to?
- Check whether purchase values are split to avoid sanction from higher authorities or to favour some specific suppliers

- Whether purchases of materials are made in the most beneficial terms to the Company.
- Check how frequently repeated orders are placed and whether it was avoidable?
- Whether periodic verification of stores and stock levels is carried out and adjustments made for variations before purchases are resorted to.
- Whether a list of non-moving items is prepared.
- Where there is abnormal delay in issue of tenders after the preparation of indent, whether the requirement of the material is considered at the time of technical evaluation of the bids to avoid purchase of materials which are no longer required by the Company.
- Whether the reasonableness of the bids are checked with regard to the estimated cost \ latest purchase price of the materials.
- Check whether materials received are utilized within the time frame mentioned in the proposal

11.13 Projects Department

Project Department implements the projects approved by the Ministry of Petroleum and Natural Gas \ Board of Directors to meet the organizational and expansion needs.

Work Orders \ Contracts

(a) Records \ registers maintained

- Purchase \ work orders
- Tender documents
- Technical and commercial bids
- Statement of technical evaluation
- Statement of commercial evaluation
- Concurrence register
- Bank guarantee \ security deposit file
- Running account bills of contractors

(b) Audit Checks

- Whether the selection of tendering procedure (limited tender, single party tender, nomination, global tender etc.) is as per the policy laid out in Delegation of Authority.
- In case of press tenders, whether the Notice Inviting Tenders (NIT) specifies the details like estimated cost, details of work to be done etc.

- Is there an approved list of vendors maintained by the consultant \ Project Contract Section for various types of works?
- Where the commercial bids are evaluated in-house, whether adjustments for various commercial terms (Purchase preference, Cenvat, Taxes etc.) properly made.
- Where the work order is placed on a vendor other than L1, whether proper justification is recorded and proper authorization as per Delegation of Authority obtained.
- Where the rates quoted by the L1 vendor are abnormally high compared to the in-house estimate, whether proper negotiation was made so as to obtain the best possible price.
- Whether there is a system of blacklisting contractors in case of poor performance.
- Whether justification given and approval from the competent authority was obtained in case of extension of work, delay in completion, additional quantities, increase in the scope of work etc.
- Whether Bank Guarantee is obtained from the contractor for advance payments made.
- Whether Performance Bank Guarantee is obtained before certification of the final running account bill.
- Whether the requirement of extra materials (items not forming part of the contract) are analysed for their necessity and the same is certified by the competent authority.
- Whether the running account bill submitted by the contractor is verified and certified by the competent authority for payment.
- Whether details for necessary deductions (delay in execution, non-submission of Cenvat documents, Security Deposit, Chargeable materials, non-submission of PF & ESI challans etc.) are intimated to Project Finance so as to deduct the same from the work bills.
- Ensure that statutory deductions like TDS, service tax, cess, interest on mobilization advance if any etc. is effected before passing of the bills.
- Ensure that all statutory deductions effected are recovered and remitted to the appropriate authorities within the specified time frame.

11.14 Project Finance:

Project Finance Section looks after all capital jobs covered under Plan and Non-Plan Schemes.

(a) Records \ registers maintained

- Tender document
- Technical and commercial bids
- Correspondence with Engineers India Limited (EIL)
- Statement of technical evaluation
- Statement of commercial evaluation
- Concurrence register
- Mobilization advances \ bank guarantee registers
- Work measurement books
- Running bill accounts

(b) Audit Checks

- Whether appropriate approval is obtained for conducting the feasibility study of the project and preparation of Detailed Feasibility Report.
- Whether the project was undertaken after a detailed project appraisal.
- Whether the project was approved by the competent authority.
- Whether on completion of the project, the capitalization has been carried out properly through Work-in-Progress Accounts to appropriate asset accounts.
- Whether the purchase order \ work order proposal pertaining to Plan \ Non-Plan project was approved by the competent authority as per DOA.
- Whether the Tender Procedure as laid out in DOA is followed for award of contracts \ issue of purchase orders.
- Whether the comparative statement drawn by the Project-Purchase Department is in order and the purchase order has been awarded to the L1 vendor only.
- Where the quotes from the vendors are higher than the in-house estimates, review the in-house estimate prepared to ascertain whether negotiations are necessary with the L1 vendor to arrive at the lowest price.
- Whether justification was recorded for awarding the contract to a vendor other than L1 vendor.

- Whether Finance concurrence was obtained before placement of Work Order \ Purchase Order for Plan \ Non Plan Project.
- Whether approval was obtained from the Tender committee constituted as per the DOA.
- Whether the Executor Department has approved the quantity \ quality of work performed through measurement books and other documents.
- Are there cases of abnormal delays in the completion of the contracts and suitable deductions are initiated towards penalty from the contractors' bill.
- Whether the necessary deductions as per the work order (for Mobilization advance \ Security Deposit \ Issue of chargeable materials etc.) are made before making payments to the contractor.
- Is there a suitable system to ensure that double payment for the same bill is not made to the contractor?
- Whether there is a proper reconciliation between the amount recovered towards issue of chargeable materials and actual issue.

11.15 Marketing Department

Marketing Department carries out the job of selling special products like Paraffin Wax, Crumbed Rubber Modified Bitumen, Sulphur, SOFO oil, Extracts etc., besides the supply of feed stocks to downstream industries.

(a) Records \ registers maintained

- List of direct customers and bank guarantees received
- Details regarding discounts granted \ credit periods allowed to customers
- Details regarding pipeline transfers to industries
- Invoices raised for pipeline transfers
- Correspondence relating to defaulting customers

(b) Audit Checks

- Whether there is a proper mechanism of monitoring balances of direct customers to ensure that all deliveries are secured by advance payments \ Bank Guarantees received from customers.
- Whether there is proper co-ordination with Finance-Sales Section for accounting of the transactions and follow up.

- Whether discounts have been granted to customers taking into account the prevailing market rates after obtaining appropriate approvals.
- Whether the discounts proposed are arrived at after considering volume of sales, prevailing market conditions and rates, cost aspects, effect on GRM etc.
- Whether the discounts are committed to the customers after obtaining approvals as per Delegation of Authority.
- Whether the approval of the Empowered Committee on Pricing was obtained before grant of discount to customers.
- Whether in case of pipeline transfers to downstream industries, receipt of advance, rising of invoice and final settlement is done on the due dates as per the agreement.
- Whether the net invoice for pipeline transfers to downstream industries is raised based on the Product Outturn Certificate and the Product Intake Certificate as prepared by Oil Accounts.
- Whether the terms of agreement with the down-stream customers are complied with and deviations, if any, are approved by the competent authority.
- Whether action taken against defaulting customers for realisation of overdue amounts \ customers who have exceeded their credit limits for realization of the excess amounts \ enhancement of the value of Bank Guarantee.

11.16 Sales

This Section deals with the accounting of the sale of products of the Company.

(a) Records \ registers maintained

- Sales invoices
- Dues from various customers
- Sales tax files
- Debit \ credit notes
- Abnormal loss on pipeline movements
- Reconciliation between sales realization and actual receipt
- Sales officers tour programmes, inspection \ physical inspection reports of retail outlets, distributors premises,
- Complaints received from public, Retail outlets etc.

(b) Audit Checks

- Check if sales are effected based on indents received from customers only
- Whether all the invoices raised during the particular period have been properly accounted
- Check whether each indent is accompanied by cheque \ DD for the requisite amount
- Whether the follow up of dues from various customers is periodically done.
- Whether all the statutory obligations as required under the State \ Central Sales Tax Act are complied with..
- Whether the quantity acknowledged by the customer is based on the Product Intake Certificate prepared by Oil Accounts Section.
- Whether there are any abnormal losses on pipe line movements.
- Whether details of dishonoured cheques are intimated to Marketing Department.
- Whether analysis of variation between sales realization, projection and the actual amount realised is carried out.

11.17 Investment of Surplus Funds

(a) Records \ registers maintained

1. Investment register
2. Records relating to receipt of interest

(b) Audit Checks

- Whether the investment of Surplus funds is made according to the guidelines issued by the board from time to time with regard to credit rating, capital adequacy etc.
- Ensure that all investments are made as per the delegation of authority for the maximum amount per investment with the approval of the competent authority
- Ensure that interest received is correct.
- Ensure that all withdrawals are supported by proper approval recording the reasons there for
- Whether the entries are passed for interest receivable on accrual basis.

11.18 Human Resources Development (HRD)

HRD is divided into four sections

- Personnel
- Administration
- Training
- Occupational Health Services Center

(a) Audit Checks

- Whether the grant of pay and allowances to the employees is as per the long-term settlement \ directives from the Ministry.
- Whether the provisions of various labour laws (Provident Fund, ESI, Workmen Compensation Act, Minimum wages Act etc.) are complied with.
- Whether there are adequate internal controls for sanctioning and certification of Administration bills.
- Review of contracts in respect of Canteen, Mass Transport, Gardening, House Keeping and Booking Tickets for employee travel etc.
- Review of terminal settlements on account of VRS etc.
- Whether the overtime payments are justified by the respective Department Head and the same is within the budget approved. What is the percentage of OT to total salary + allowance?
- Whether the calculation and payment of incentives \ bonus \ ex gratia is as per the rules \ DPE circulars.

11.19 Audit Committee

- Minutes of the Audit Committee meetings needs to be reviewed.
- Action taken on the issues raised by Audit committee needs to be watched.

11.20 Functional Areas and Periodicity

Functional Areas-	Periodicity
Finance, Accounts and Sales-	Annual
HRD-	Annual
Projects and Development-	Annual
Refinery Operations and Technical Services-	Annual
Cauvery Basin Refinery-	Annual
Material Management-	Annual
Accounts Audit-	Annual

E. BPCL KOCHI REFINERIES LIMITED

11.21 Introduction

Kochi Refineries Ltd (KRL), formerly known as Cochin Refineries Ltd., was registered on 6th September 1963 at Ernakulam and went on stream in September 1964. The designed capacity of 7.5 mmtpa was enhanced to 9.5 mmtpa during 2009. The Company has a captive power plant of 26.3 MW commissioned in 1991. An additional captive power plant of 17.8 MW was commissioned in 1998. Bharat Petroleum Corporation Limited acquired the Government of India's shares in KRL in March 2001. With this the Company has become a subsidiary of BPCL. Crude is procured through imported and indigenous sources and payments are made to IOC, ONGC etc.

11.22 Objectives

The main objectives of the company are:

- To ensure sustained growth through enlargement of the Company's role and participation in the country's petroleum refining sector and diversification into related fields.
- To optimize the utilization of its refining capacity.
- To ensure maximization of sales of products directly marketed by the Company.

11.23 Capital Structure

Authorized and paid up capital stood at Rs.150 crore and Rs.138.47 crore respectively as on 31.03.2010. The shareholding pattern as on 31.03.2010 was as under:

	% of share holding
BPCL	54.93
Others	45.07

11.24 Finance & Accounts: Records maintained

- Vouchers for payments
- Bank book
- Daily cash statement
- Bank Reconciliation statement
- Journal vouchers
- Cash flow statements
- General ledger
- Credit \ debit notes

- Fixed Asset Register
- Final Accounts \ Schedules \ MIS reports
- Statutory Returns
- Budget \ Profitability statement
- Correspondence with Income Tax Authorities

Audit Checks:

Besides financial transactions relating to oil accounts, material management, project department etc. the following points may be looked into in Audit.

- Ensure whether Bank Reconciliation statements are up-to-date and there are no unreconciled items.
- Scrutinise MIS and other financial reports
- Review correspondence with Income Tax and other Statutory Authorities
- Scrutinise debit \ credit note transactions
- Compare financial performance with Budget and analyse reasons for variations
- Review transactions relating to additions \ deletions of fixed assets
- Scrutinise schedules relating to expenditure
- Test check journal vouchers
- Review transactions relating to loans availed and investments made
- Review of cost records
- Review of foreign exchange variations and income from other sources
- Review transactions relating to loans availed and investments made

11.25 Crude purchase, Pricing & Insurance

Crude purchase and Pricing section is primarily intended to perform the work relating to the accounting of and payment for purchase of crude oil, insurance of plant and machinery and other assets and pricing of products. Crude purchases could be classified into three different groups.

- Imported crude purchased through IOC.
- Bombay High crude purchased through ONGC and
- PY 3 crude purchased from Hardy exploration, ONGC, Tata Petrodine, Hindustan Oil Exploration Company Limited.

(a) **Records \ registers maintained**

- Methodology adopted in locating economical sources
- System of calling for quotations \ concluding of tenders
- contracts entered into for purchase of crude
- Register for chartering of vessels and arranging for insurance
- Charter party agreement with the carrier
- Review of Bills of Lading Bills of entry
- Crude intake certificate prepared at OM &S section
- Dip memos on the basis of which crude intake certificate is prepared
- Debit note from IOC towards crude payments
- Invoice from the supplier of crude
- Invoice from owner of the vessel for freight and demurrage
- Survey reports at the load port and disport
- Insurance certificate for each voyage
- Lodging of claims for shortages \ ocean losses etc
- Intimation of sailing details from IOC
- INTO bond and EX bond filed with the Customs authorities
- Statement of balances with Customs as given by Customs authorities

(b) **Audit Checks:**

- Check invoices in case of **imported crude**, to see whether the payments are made for net Bill of Lading quantity
- See whether the carrier has lodged a protest note with the supplier for shortages in quantity and a claim was made with the supplier.
- In case of **BH crude** whether the payment is made for the custody transfer quantity as per the annexure to the bill of lading.
- The quantity received, as per the crude intake certificate may be verified with the surveyor's report to ensure agreement.
- Whether the terms of the memorandum of agreement signed between ONGC and IOC, on behalf of CPCL are complied with.
- Whether the Crude purchase rate for imported crude is calculated as Monthly average with premium \ discount or as the Official Selling Price (OSP) as per the terms of the crude purchase agreement.
- Whether the difference between the foreign exchange rate at which the payment is made by CPCL to IOC and the actual rate at which IOC paid to the foreign supplier, is claimed from \ paid to IOC for each payment on a monthly basis.
- Whether the import parity price as per the Memorandum of Agreement between ONGC and IOC, on behalf of CPCL, is paid in case of purchase from ONGC (BH crude).

- Ascertain the arrangement as regards transportation of crude based on the terms of the purchase contract.
- Whether the exchange rate adopted for calculation of freight is as per the chartered party agreement for the voyage.
- Whether the insurance certificate is received for each voyage.
- Check whether the demurrage payment is avoidable.
- Verify the reasons and the calculation of excess hours for which demurrage payment is made from the shipping documents given by the carrier.
- Verify if the customs duty payment is made as per rates applicable as on the date when the Ex-Bond is filed with the customs authorities.
- Delay in lodging customs claims to be scrutinized.
- Verify whether wharfage is paid to Port Trust authorities at prescribed rates on all receipts of indigenous and imported crude oil.
- Whether the payments made to clearing agents and Surveyors are as per the terms of the contract.
- Where the difference in the quantity loaded at the load port and that received at disport is more than the specified limits, whether claim for transit loss (ocean loss) is preferred with the carrier as per the terms of the chartered party agreement.
- Compare the onboard quantity at port with the actual shore receipt and ascertain the difference as a percentage of the Bill of Lading quantity. If the Percentage so calculated at port is more than the prescribed limit, whether the on board carried quantity, if any, has been discharged in the next voyage or recovered from the carrier.
- Whether the difference is claimed from the supplier, in case the supplier accepts the protest note.
- Whether the discount on products is sanctioned after taking into account the current \ future international prices and the demand and supply of the product.
- Scrutinise the minutes of the Pricing Committee for details such as discount proposed, effective date of discount, the validity period etc and check whether the discount terms are complied with.

11.26 Oil Accounts:

This section is responsible for consolidation of dip readings, preparation of daily production statements, excise returns, crude intake \ out turn and calculation of loss percentage based on information from technical service department and co-ordination with clearing agents for filing of INTO and EX bond with Customs authorities.

(a) Records \ registers maintained

- Daily Dip statement prepared by OM&S showing the daily dip of tanks taken during 18.00 hours.
- Dip memos showing dip readings before and after despatch \ receipt, daily dip memos in respect of tanks taken at 18.00 hours, fortnightly dips.
- Product Outturn Certificates raised for despatches effected to various customers.
- Product In turn Certificates prepared for the return stream received from downstream customers.
- Copies of invoices raised for the despatches through trucks.
- Consolidated Debit notes raised for invoices.
- Delivery Slip prepared at Invoice cell showing the gross, tare and net weights, product to be lifted etc.
- Correspondences with customers.

(d) Audit Checks

- Ensure those product outturns are prepared correctly based on dip readings.
- Ensure that the details of production and calculation of fuel and loss is proper.
- Ensure that the reconciliation of opening of stock of crude processed, crude received and closing stock of crude is properly done.
- Whether a periodic reconciliation of PLA register and the General ledger is carried out.
- Whether the actual production (total throughput and products produced) is comparable with the budgeted production estimates as given by Production Planning department.
- Whether the difference in throughput is proportional to the difference in quantity of products produced and analyse the reasons for the variation, if any.

11.27 Stock and Oil Movement

Stock and Oil Movement Section is responsible to store and handle raw material (crude), finished products and intermediate products except FCCU & ARU feed stocks which are in the custody and care of Manufacturing Department.

Audit Checks

- Scrutinise handling losses, storage losses etc.
- Check whether optimum stock levels crude, products etc. are maintained.
- Scrutinise receipt, despatch documents.

11.28 Sales Billing and claims on PPAC:

The section is responsible for raising invoices, Debit notes and credit notes on Oil Marketing Companies \ other customers for product sales. This section monitors timely recovery against the billings on OMCs, PPAC and other companies.

Audit Checks

- Ensure that all product movements are correctly recorded.
- Ensure that ex-refinery price is adopted for billing.
- Ensure that settlement of invoices is made as per agreement.
- Ensure that Excise duty and sales tax are appropriately billed and recovered.
- Ensure that appropriate interest charges are recovered for delayed payment.

11.29 Refinery Operations and Technical services

Records \ Registers maintained

Records relating to

- Crude oil purchase, receipt and storage - processing
- Monthly production planning reports
- Monthly production statement
- Plant-wise performance report
- Power utilisation
- Demurrage files
- Ocean loss analysis for each shipment
- Fuel and loss
- Chemicals catalysts \ platinum consumption
- Crude taken on loan
- Reconciliation of production \ movement material balance.
- Plant-wise maintenance records - work orders
- Records relating to plant shutdown
- Records relating to process engineering, general engineering and Inspection quality control optimization
- Technical service Department
- Daily stock registers for storage tanks
- Stock loss records including transit losses

Audit Checks Apart from Audit Checks mentioned for crude purchase \ oil accounts, the following checks needs to be exercised:

- Compare crude throughput with planned and installed capacity - analyse reasons for thrupt loss.
- Compare crude mix with plan and implications of the change thereof.
- Compare the actual production of petroleum products with reference to budgeted input-output ratio
- Check for off spec production \ down gradation and reasons for disposal, losses sustained therefrom
- Compare refining cost per MT of crude throughput with budget norms and analyse variation.
- Planned shutdown - unplanned shutdown of process units examine justification for unplanned shutdown.
- Reasons for demurrage payments.
- Check for avoidable payment to TNEB for not maintaining the required power factor - Fixing of minimum demand.
- Check for consumption of Chemicals \ platinum catalysts against norms.
- Fuel and loss, storage loss - Actual with norms analyse variations.
- Scrutiny of reports under Management Information system.
- The recommendation of Solomon Association incorporated - Implementation by CPCL scrutiny of results.
- Review expenditure in R&D and examine their activity reports

11.30 Materials Management

Materials Management Department initiates action for purchase on receipt of indents from other departments. Processing of purchases is based on the inventory levels. Material receipts, transfers and issues and closing stocks are documented.

(a) Records \ registers maintained

- Indent
- Tender document
- Technical and commercial bids
- Statement of Technical evaluation
- Statement of Commercial evaluation
- Purchase order
- Physical verification reports
- List of non-moving \ slow moving and obsolete items
- Material supplies to contractors

(e) Audit Checks

- Check whether company has a system of maintaining panel of suppliers for different items and updates their performance?
- Check the method of calling for tenders
- Check whether delegation of authority is fixed by the company for different types of purchases and the same is adhered to?
- Check whether purchase values are split to avoid sanction from higher authorities or to favour some specific suppliers
- Whether purchases of materials are made in the most beneficial terms to the Company.
- Check how frequently repeated orders are placed and whether it was avoidable?
- Whether periodic verification of stores and stock levels is carried out and adjustments made for variations before purchases are resorted to.
- Whether a list of non-moving items is prepared.
- Where there is abnormal delay in issue of tenders after the preparation of indent, whether the requirement of the material is considered at the time of technical evaluation of the bids to avoid purchase of materials which are no longer required by the Company.
- Whether the reasonableness of the bids are checked with regard to the estimated cost \ latest purchase price of the materials.
- Check whether materials received are utilized within the time frame mentioned in the proposal

(a) Purchase Audit Checks Check whether

- Purchases are made on the basis of an indent duly approved by a competent authority.
- Tenders are invited with necessary approvals from the competent authority and bid system is followed.
- Requisite formalities of tendering viz. selecting vendor list, date and time of receipt of tenders, opening of tenders etc. are duly complied with before tenders are opened \ processed.
- Tenders of black listed suppliers are dealt with as per standing instructions.
- Ensure that tenders are awarded to the lowest bidder or if not, appropriate reasons are recorded.
- Comparative statement bringing out all material aspects of the tenders are prepared and checked by materials \ finance departments.
- PO issued incorporated the requisite terms and conditions, viz. obtaining the performance bank guarantee, quantity, quality, prices, delivery schedule payment terms etc.

- Emergency purchases are kept to the minimum, justified and are duly authorised. The materials procured are used immediately on receipt.
- Materials are procured at the right prices \ quantum \ time.
- Laid down purchase procedures are followed.

(c) **Inventory Control: Audit Checks** It may be ensured that

- Adequate physical control is exercised over the receipt and issue of materials.
- Proper system exists in respect of inspection, receipt, issue and storage of materials.
- Reconciliation of physical balances with book balances and adjustments in the records with appropriate approvals.
- Maximum levels, minimum levels, ROL, ROQ are properly fixed and adhered to.
- Proper system exists in respect of valuation of consumption and closing stock of materials.
- ABC analysis of materials is carried out for control over critical \ high value items.
- Slow moving \ non-moving \ obsolete items are periodically identified and necessary disposal action is taken.

(c) **Insurance Spares:**

Audit Checks: Ensure that

- Optimum stock of materials are maintained keeping in view EOQ, minimum - maximum levels etc.
- Critical reviews of EOQ, ROL, and ROQ lead time are taken into account etc.
- Random checks of items with regard to reasonability of their levels etc.

11.31.1 Project Department:

Project Department implements the projects approved by the Ministry of Petroleum and Natural Gas \ Board of Directors to meet the organizational and expansion needs.

(a) **Work Orders \ Contracts Records \ registers maintained**

- Purchase \ work orders
- Tender documents
- Technical and commercial bids
- Statement of technical evaluation
- Statement of commercial evaluation
- Concurrence register
- Bank guarantee \ security deposit file
- Running account bills of contractors

(b) Audit Checks:

- Whether the selection of tendering procedure (limited \ open \ single tender, nomination, global tender etc.) is as per the policy laid out in Delegation of Authority.
- In case of press tenders, whether the Notice Inviting Tenders (NIT) specifies the details like estimated cost, details of work to be done \ materials to be supplied etc.
- Is there an empanelled list of vendors maintained by the consultant \ Project Contract Section for various types of works?
- Where the commercial bids are evaluated in-house, whether adjustments for various commercial terms (Purchase preference, Cenvat, Taxes etc.) properly made.
- Where the work order is placed on a vendor other than L1, whether proper justification is recorded and proper authorization obtained as per Delegation of Authority.
- Where the rates quoted by the L1 vendor are abnormally high compared to the in-house estimate, whether proper negotiation was conducted to obtain the best possible price.
- Whether there is a system of blacklisting contractors in case of poor performance.
- Whether justification given and approval from the competent authority obtained in case of extension of work, delay in completion, additional quantities, increase in the scope of work etc.
- Whether Bank Guarantee is obtained from the contractor for advance payments made and is validated till work is completed.
- Whether Performance Bank Guarantee is obtained before certification of the final running account bill.
- Whether the requirement of extra materials (items not forming part of the contract) are analysed for their necessity and the same is certified by the competent authority.
- Whether the running account bill submitted by the contractor is verified and certified by the competent authority for payment.
- Whether details for necessary deductions (delay in execution, non-submission of Cenvat documents, Security Deposit, Chargeable materials, non-submission of PF & ESI challans etc.) are intimated to Project Finance so as to deduct the same from the work bills.
- Ensure that statutory deductions like TDS, service tax, cess, interest on mobilization advance if any etc. is effected before passing of the bills.
- Ensure that all statutory deductions effected are recovered and remitted to the appropriate authorities within the specified time frame.

(b) Project Finance: This Section looks after all capital jobs covered under Plan and Non-Plan Schemes. Following Records \ registers are maintained:

- Tender documents
- Technical and commercial bids
- Correspondence with Engineers India Limited (EIL)
- Statement of technical evaluation

- Statement of commercial evaluation
- Concurrence register
- Mobilization advances \ bank guarantee registers
- Work measurement books
- Running bill accounts

(b) Audit Checks

- Whether appropriate approval is obtained for conducting the feasibility study of the project and preparation of Detailed Feasibility Report.
- Whether the project was undertaken after a detailed project appraisal and approved by the competent authority.
- Whether the purchase order \ work order proposal pertaining to Plan \ Non-Plan project was approved by the competent authority as per DOA.
- Whether the Tender Procedure as laid out in DOA is followed for award of contracts \ issue of purchase orders.
- Whether the comparative statement drawn by the Project-Purchase Department \ DIC is in order and the purchase order has been awarded to the L1 vendor only.
- Where the quotes from the vendors are higher than the in-house estimates, review the in-house estimate prepared to ascertain whether negotiations are necessary with the L1 vendor to arrive at the lowest price.
- Whether justification was recorded for awarding the contract to a vendor other than L1 vendor.
- Whether Finance concurrence was obtained before placement of Work Order \ Purchase Order for Plan \ Non Plan Project.
- Whether approval was obtained from the Tender committee constituted as per the DOA.
- Whether the Executor Department has approved the quantity \ quality of work performed through measurement books and other documents.
- Are there cases of abnormal delays in the completion of the contracts and suitable deductions are initiated towards penalty from the contractors' bill.
- Whether the necessary deductions as per the work order (for Mobilization advance \ Security Deposit \ Issue of chargeable materials etc.) are made before making payments to the contractor.
- Is there a suitable system to ensure that double payment for the same bill is not made to the contractor?
- Whether there is a proper reconciliation between the amount recovered towards issue of chargeable materials and actual issue.
- Whether on completion of the project assets are capitalized correctly

11.32.1 Human Resources Management

HRD is divided into four sections

- Personnel
- Administration
- Training
- Occupational Health Services Center

(a) Audit Checks

- Whether the grant of pay and allowances to the employees is as per the long-term settlement \ directives from the Ministry.
- Whether the provisions of various labour laws (Provident Fund, ESI, Workmen Compensation Act, Minimum wages Act etc.) are complied with.
- Whether there are adequate internal controls for sanctioning and certification of Administration bills.
- Review of contracts in respect of Canteen, Mass Transport, Gardening, House Keeping and Booking Tickets for employee travel etc.
- Review of terminal settlements on account of VRS etc.
- Whether the overtime payments are justified by the respective Department Head and the same is within the budget approved. What is the percentage of OT to total salary + allowance?
- Whether the calculation and payment of incentives \ bonus \ ex gratia is as per the rules \ DPE circulars.

11.33 Investment of Surplus Funds

(a) Records \ registers maintained

- Investment register
- Records relating to receipt of interest

(b) Audit Checks

- Whether the investment of Surplus funds is made according to the guidelines issued by the board from time to time with regard to credit rating, capital adequacy etc.
- Ensure that all investments are made as per the delegation of authority for the maximum amount per investment with the approval of the competent authority
- Ensure that interest received is correct.

- Ensure that all withdrawals are supported by proper approval recording the reasons therefor
- Whether the entries are passed for interest receivable on accrual basis.

11.34 Audit Committee

- Minutes of the Audit Committee meetings need to be reviewed.
- Action taken on the issues raised by Audit committee needs to be watched.

11.35 Functional Areas and Periodicity

Functional Areas-	Periodicity
Projects and Development-	Annual
Finance, Accounts and Sales -	Annual
Material Management-	Annual
Refinery Operations and Technical Services-	Annual
HRD-	Annual
Accounts Audit-	Annual

F. PETRONET COCHIN-COIMBATORE-KARUR LIMITED (PETRONET CCK LTD)

11.36 Introduction

Petronet C C K Ltd. is a service industry. Petronet Cochin-Karur product pipeline was initially envisaged in 1987. Government of India, Ministry of Petroleum and Natural Gas granted first stage clearance and advised Bharat Petroleum Corporation Limited (BPCL) to undertake preparation of detailed feasibility report for Cochin-Coimbatore-Karur (CCK) pipeline project. For expeditious implementation of pipelines projects in the country, Government of India approved the formation of a financial holding company- Petronet India Limited (PIL) in April 1997. The Board of PIL approved (September 1997) the proposed investment in the equity of a new joint venture company (JVC) to be co-promoted by BPCL and PIL for construction and operation of CCK product pipeline at estimated Cost of Rs. 535.00 Crore. The proposed equity structure of JVC was BPCL-26% PIL-26%, Cochin Refineries Limited (CRL)-upto 23% and balance with others. Accordingly, Petronet Cochin-Coimbatore-Karur Limited (Petronet CCK Limited) was incorporated on 18th June 1998 with the object to implement the project of laying pipeline between Cochin-Coimbatore –Karur and operate dedicated pipeline, pumping stations and other facilities for transportation of liquid or gaseous petroleum, petro-chemical products, etc. Trial runs of Petronet CCK pipeline linking Kochi-Coimbatore-Karur spanning 300 kms between Kochi and Karur was successfully completed in March 2002 and commissioned in September 2002.

Now POLs of Kochi Refineries Limited are being pumped through this inter-State pipeline to Coimbatore and Karur in Tamil Nadu. The entire length of the pipeline will be under constant surveillance. Security personnel are deployed for every 10 km. The pipelines are provided with turbine and density meters and temperature measuring sensors; and all these readings will be monitored from the control room. The first tap-off point is located in a 92 acre premises at Irugur, 12 km from Coimbatore. There are 10 floating roof tanks, two cone roof tanks for slop and two cone roof tanks for storing water. The gross storage capacity of the terminal is 1,14,500 kilo-liters. The final terminal at Karur also has 10 floating roof tanks and 4 cone roof tanks. The total storage capacity is around 1,36,000 kilo-liters. The Karur terminal takes care of the marketing needs of five districts — Karur, Dindigul, parts of Erode, Namakkal and Trichy, covering approximately 100 sq km. Around 200 trucks are expected to load fuel at this terminal every day.

11.37 Objectives

- Laying pipeline between Cochin-Coimbatore –Karur and operate dedicated pipeline, pumping stations and other facilities for transportation of liquid or gaseous petroleum, petro-chemical products, etc.
- De-congestion of the rails replacing five train rakes every day and savings on the transportation cost to KRL
- Speed and efficiency are the other prominent aspects of this inter-state pipeline project.
- Elimination of transit losses and maintenance of quality are the highlights of this CCK pipeline
- Elimination of dependency on road transport \ truckers ensuring timely supplies
- Ensuring safe, pollution-less and environment-friendly supplies.
- Capacity to carry 3.3 MTs of petroleum products per annum.

11.38 Capital Structure:

The equity structure of Rs. 535.00 crore was contributed by BPCL-26%, PIL-26%, Cochin Refineries Limited (CRL)-upto 23% and the balance by others. Company became a Government Company under section 619 (B) of the Company`s Act consequent to the conversion of SBI as Government owned corporation and BPCL and SBI have a combined holding of more than 51 %.

11.39 Organisational set up

The Joint venture is lead by the Chief Executive Officer who is assisted by Senior Manager, Projects.

Pipeline Operations:

- The Company achieved a throughput of 18,79,765 MT and a revenue of Rs. 49.75 crore in 2010-11 as against 17,28,060 MT and Rs. 45.71 crore respectively for the year 2009-10.
- Product transfer through pipeline increased from 1.728 MMT in 2009-10 to 1.880MMT in 2010-11.

11.40 Records \ Registered maintained

Finance & Accounts

- Vouchers for payments
- Bank book
- Daily cash statement
- Bank Reconciliation statement
- Journal vouchers
- Cash flow statements
- General ledger-outstanding from OMCs
- Loans and advances register
- Credit \ debit notes
- Fixed Asset Register, Final Accounts \ Schedules \ MIS reports
- Statutory Returns-collection and remittance of service charges
- Budget \ Profitability statement
- Pipeline receipts \ despatches maintenance charges
- Correspondence with Income Tax Authorities

Audit Checks

The following points may be looked into in Audit:

- Ensure whether Bank Reconciliation statements are up-to-date and there are no unreconciled items.
- Scrutinize MIS and other financial reports including receipts \ despatches
- Review correspondence with Income Tax and other Statutory Authorities
- Scrutinize debit \ credit note transactions
- Compare financial performance with Budget and analyse reasons for variations
- Review transactions relating to additions \ deletions of fixed assets
- Scrutinize schedules relating to expenditure
- Test check journal vouchers
- Files pertaining to borrowings from various agencies.
- Verify the repayment schedules for loans \ borrowings and interest

11.41 Sales and billing:

List of records maintained:

- General ledger and trial balance

- Term \ short term deposits with banks.
- Service tax assessment files.
- Files relating to Income Tax Department, advance tax and refund files.
- Files relating to payment of electricity charges to Kerala State Electricity Board (KSEB) and agreement for export of power to KSEB.
- Stock transfer-invoices vis-à-vis transported quantities.
- Files \ correspondence relating to OMC Transactions for products sales.
- Internal Audit reports.

Audit Checks

- Reconciliation between the products dispatched ex KRL with the pipeline receipts at Coimbatore and Karur
- Ensure that KRL despatches the committed quantities through the pipeline failing which Petronet CCK is entitled to the minimum guaranteed income
- Ensure that both the parties agree to the quantities received
- Ensure the bills are raised for the right quantity \ value
- Verify that pipeline and service charges are correctly billed and collected.

11.42 Functional Areas and Periodicity

Since BPCL-KRL`s stock is transferred through Petronet CCK`s pipeline, this amounts to stock transfer of BPCL`s products and only Pipeline charges are payable to the company along with applicable service charges. In terms of the agreement between the companies, minimum agreed \ committed quantities are to be dispatched by BPCL and CCK is entitled the minimum committed revenues.

Periodicity of audit: In view of the limited scope of operations, transaction audit may be conducted once in two years and accounts audit every year.

CHAPTER 12

General Insurance Companies

12.1 Introduction

The general insurance industry was nationalized with effect from January 1, 1973, by the General Insurance Business (Nationalization) Act. A holding Company called General Insurance Corporation of India (GIC) was formed and the then existing Indian companies viz., United India Insurance Company, New India Assurance Company, National Insurance Company and Oriental Fire & General Insurance Company became the subsidiaries of the General Insurance Corporation of India. With effect from 1 April 2001, all the subsidiaries became independent Government Companies.

- A. United India Insurance Company:** The Chairman-cum-Managing Director is the head of the Company. He is assisted by 5 Directors and 6 General Managers. The Headquarters is in Chennai. The Company has 26 Regional Offices, 384 Divisional Offices, 1,019 Branch offices and Micro offices and 7 Large Corporate & Brokers' cells as on 31.3.2011.
- B. National Insurance Company:** The Chairman-cum-Managing Director is the head of the Company assisted by 4 Directors and 7 General Managers. The Headquarters is in Kolkata. The Company has 24 Regional Offices, 315 Divisional Offices, 627 Branch Offices and 254 Business Centers.
- C. New India Assurance Company:** The Chairman-cum-Managing Director is the head of the Company assisted by 7 Directors and 5 General Managers. The Headquarters is in Mumbai. The Company has 28 Regional Offices, 397 Divisional Offices, 588 Branch Offices, 29 Direct Agent Branches and 45 Extension counters.
- D. Oriental Insurance Company:** The Chairman-cum-Managing Director is the head of the Company assisted by 5 Directors and 6 General Managers. The Headquarters of the Company is in New Delhi. It has 26 Regional Offices, 338 Divisional Offices, 511 Branch offices and 125 Extension Counters.

All the insurance companies have started separate office exclusively for processing of all claims under each regional office.

12.2 Acts and Rules

General Insurance Industry is governed by the following Acts, Rules and Guidelines.

- Insurance Act, 1938 and rules made there under.
- The General Insurance Business (Nationalization) Act, 1972.
- Notification regarding merger schemes of 106 Companies into four companies effective from 1 January 1974.
- Act & Rules relating to IRDA.
- Annual Programme of reinsurance arrangements issued by General Insurance Corporation.
- Accounts Manuals for Divisional Offices and Branches issued by the Subsidiaries.
- Circulars containing “Financial Powers” issued by the insurance companies.
- Confidential Guide for General Insurance Business.
- Tariffs issued by Tariff Advisory Committee.
- Market Agreements.
- Claims Procedure Manual.

12.3 Records \ Documents maintained-Fire, marine and miscellaneous depts.

1. Branch Offices

- Premium Register - department wise, monthly.
- Endorsements for additional premium \ refunds \ cancellation of policies \ change of names \ address or hypothecation etc. - department wise.
- Claims intimation \ paid registers - department wise.
- Surveyors' empanelment \ Allotment Register.
- Cover note control Register.
- List of major clients - department wise.
- Risk Inspection report of all major clients (Fire \ Engg. Department).
- Approvals of discounts \ loadings special rating by Tariff Advisory Committee (TAC) \ Regional Offices (ROs) of TAC, in respect of good features, claims experience, Fire extinguishing appliances, electrical installations, Flood etc.
- Salvage recovery \ disposal, recovery agents files etc.
- Internal audit reports and its compliance by Branch.
- Previous Inspection Reports.
- Monthly BRS, list of cheques dishonoured \ stale cheques.
- Banks guarantee ledgers \ Cash Deposit registers.
- Claim intimation registers-department-wise
- MACT claims paid \ pending.
- Declaration files in respect of fire \ marine \ money-in transit policies.
- Co-insurance balances.
- Control accounts for excess premium, refund premium, Agents commission etc.

- Minutes of ICCC \ Market Agreements \ Circulars.

2. Divisional Offices

Records \ Documents maintained

Records \ documents similar to those mentioned above are maintained in Divisional Offices. In addition the following are also maintained:

- Trial Balance \ P & L Account \ Balance Sheet.
- Incentive files.
- Approval for claims, discounts, refunds, under-writing etc. exceeding Branch powers
- Correspondence with Regional Offices
- RUC returns sent to RO

3. Regional Offices

Records \ Documents maintained

- List of references made by DOs for claim settlements \ records \ rating \ approval for repudiation of claims \ refunds etc.
- Cash book for transfer of funds to DOs \ BOs
- Internal Audit reports of all DOs and ROs
- Inter RO \ DO reconciliation
- Journal Vouchers and ledger accounts
- Provision for orphan claims \ MACT claims
- Bank reconciliation statements \ Reconciliation with HOs
- Risks for which inspection is arranged \ to be arranged
- Sanction register for acceptance beyond DO powers \ discounts \ loading for special perils
- Housing loan sanction \ recovery records
- Records of sanction of car loans to eligible employees
- RUC files, Bordeaux
- Legal files \ vigilance cases
- Environment Relief Fund accounts

4. Head Office

(a) Technical Departments

- Fire
- Marine Cargo
- Marine Hull

- Misc. other than Engineering
- Engineering
- Motor
- Re-insurance
- Rural Insurance Business
- Project Cell \ Risk Management
- Training Centre

(b) Non-Technical Departments

- Housing Loan
- Establishment
- Personnel
- Administration
- Management Services Department
- Estates
- Investments
- Central Finance and Accounts
- Marketing including advertising
- Vigilance
- Grievance Cell
- Internal Audit
- Pension

12.5 Audit of Underwriting

1. Cover Notes

These are documents, describing the risk accepted and issued by Development Officers, pending issue of printed policy document by Branch \ Division. They are valid for 15 days only. Branch \ Divisional Office maintains a control register for the issue and receipt of cover notes.

Points to be seen in audit are:

- Cover notes are serially numbered before issue.
- Premium received (cash \ cheque) is accompanied by proposal form and copy of cover note.
- Cover note discloses correct time \ date of inception \ duration of cover, correct location of properties of insured, sum insured, perils covered and premium details.
- All unutilized cover notes are kept in safe custody at BO \ DO.

- If cheque is dishonoured, policy is to be cancelled from inception, endorsement issued and no claim is to be entertained for the intervening period.
- If claim occurs before cheque is cleared, such claim is investigated.
- Development Officer-wise reconciliation is done to detect missing cover notes and discrepancies are investigated and new cover notes are not issued pending reconciliation.
- Remittances made tallies with that shown on cover notes.
- All close proximity claims are to be investigated for genuineness \ motive behind issuing cover notes

2. Fire Department

- a. Standard Fire and Special perils policy covers 1. Buildings 2 Machinery and Accessories 3. Stock and stock in process and 4 Contents including furniture are covered.
- b. Fire loss of profit policy covers the unforeseen losses consequent to fire accident can be taken.

At the time of taking the cover, insured has to declare the nature of usage of the premises covered viz. dwelling, shop, educational institutions, library, temple, shop, industrial \ manufacturing, godown \ warehouse etc

Standard fire and special perils policy-perils covered are:

Loss/ damage/ destruction of the property caused by

- Deterioration of Stocks in Cold Storage premises due to power failure following damage due to an insured peril
- Forest Fire
- Impact Damage due to Insured's own Vehicles, Forklifts and the like and articles dropped there from
- Spontaneous Combustion
- Omission to insure additions, alterations or extensions
- Earthquake (Fire and Shock)
- Spoilage material damage cover.
- Leakage and contamination cover.
- Temporary removal of stocks.
- Expenses :• Architects , Surveyors and Consulting Engineer's Fees (in excess of 3% claim amount)

- Debris Removal (in excess of 1% of claim amount)
- Loss of rent.
- Insurance of additional expenses of rent for alternative accommodation.
- Start up Expenses.

Perils not covered:

- War and allied perils
- Ionizing radiations and contamination by radioactivity
- Pollution or Contamination

Properties not covered:

- Items like manuscripts etc. unless specifically declared.
- Cold storage stocks due to change of temperature.
- Loss / damage/ destruction of any electrical and/or electronic machine, apparatus, fixture or fitting arising from over running, excessive pressure, short circuiting, arcing, self heating or leakage of electricity, from whatever cause including lightning.
- Loss / damage / destruction of Boilers, Economizers or other Vessels in which steam is generated machinery or apparatus subject to Centrifugal force, by its own explosion/ implosion

Deletion of Perils at the inception:

STFI and RSMTD perils can be deleted at the inception of the policy for which suitable reduction in package premium rate is allowed.

Some Add on covers (optional)

- Terrorism
- Removal Of Debris
- Architects Surveyors Consulting Engineers fees
- Earthquake (Fire and Shock only)
- Spontaneous combustion
- Start-up expenses
- Spoilage Material Damage Cover
- Leakage and Contamination cover

These additional covers are available by payment of additional premium.

Particulars of cover, liability and exclusion given above, are not complete or exhaustive.

Fire loss of profit can be taken to cover the following

- Net profit due to the stoppage of business as a result of an insured peril
- Standing charges which continue to accrue in spite of stoppage of business
- Additional expenditure incurred by the insured to maintain normal business activity during the period in which the normal business is affected.

Indemnity period

- The indemnity period commences with the date of damage and lasts till such a time as the business is restored to its pre damaged level or the period stipulated in policy whichever comes first.
- The policy insures earnings of the business lost during the indemnity period.
- Particulars of cover liability and exclusion given above are not complete or exhaustive

Who can take the policy?

Any person / firm \ organization \ institution who may suffer financial loss in the event of operation of insurable perils may insure such property under the fire policy. They may be broadly categorized as under:

- Owners of Building and contents such as house hold articles, furniture etc.
- Shop Keepers.
- Educational/ Research Institutions.
- Hotels, Boarding and Lodgings, Hospitals, Clinics or such service providers.
- Industrial and Manufacturing Firms.
- Godown Keepers.
- Bailees, Lessor, Lessee, Banks, Financial Institutions, Mortgagors, Mortgagees.
- Traders in stocks.
- Trustees, Charitable Institutions.
- Transporters and C & F Agents.

Checks to be exercised in the audit of fire underwriting include:

- Rates charged, loading \ discounts are as per the Risk Inspection Report or guideline rates for that particular risk or commensurating with risk accepted or based on previous claims experience
- Appropriate additional rates are charged for opting `add on` covers.
- Where correct rating is not available provisional rating at 1.750 ‰ shall be charged and premium adjusted according to final rates.
- Where special rates are allowed with discount for FEA \ EL, the validity period is not exceeded or has been revalidated by Regional Offices.
- Commissions \ Brokerages are allowed to those who are recognized by IRDA and with the consent of the insured
- agency commission \ brokerage allowed does not exceed the rates stipulated by IRDA
- Silent risks are rated according to tariff provisions.
- Where claim experience based rates are allowed, genuineness of the same be verified
- insured's carrying similar risks are rated uniformly and that special rates are allowed with proper justifications and approvals

3. Marine Department

Marine insurance:

Any loss or damage to goods in transit by rail, sea, road, air or post is covered under this segment and all Owners or bankers of goods in transit / shipment can opt for cover.

The All India Marine Cargo Inland Rail \ Road business was detariffed with effect from 1 April 1994. In lieu of tariff, guide rates were issued by the Head Offices of the insurance companies. These rates are for basic cover only. For providing wider covers, rates moiré than the basic rates are charged covering WAR \ SRCC etc. covers except for the rating, all the other terms and conditions, warranties etc., governing the issue of marine policies in the erstwhile marine tariff, are followed now also.

Marine insurance covers the following risks:

Marine insurance covers the following:

- export and import shipments

- goods in transit by rail sea road air or post
- goods carried by coastal vessels plying between the various ports within the country
- cargo transported by small vessels or country craft over inland waters
- goods moved from place to place by river transport

The policy covers loss / damage to the property insured due to the following perils:

- Fire or explosion; stranding sinking etc.
- Overturning derailment (of land conveyance)
- Collision
- Discharge of cargo at port of distress
- Jettison
- General average sacrifice salvage charges
- Earthquake lightning
- Washing overboard
- Sea lake river water
- Total loss of package lost overboard or dropped in loading or unloading
- War and SRCC is specifically covered

Premium Rating

The normal basis of valuation for ocean/air consignment will be CIF + incidentals up to a percentage which is agreed upon at the inception of the policy (normally this is 10 %). In respect of inland transit, rating is left to the discretion of the under-writers or as per guide rates or based on previous experience. Sometimes overall premium received from the insured has a bearing on the rates quoted.

Types of Policies

Open Cover

Open cover is usually issued for import / export. The open cover is a contract effected for a period of 12 months whereby the insurance company agrees to provide insurance cover to all shipments coming within the scope of the open cover. Open cover is not a policy. It is an unstamped agreement. As and when shipments are declared specific policies are issued as evidence of the contract and on collection of premium.

Open Policy

This policy is issued for transit of goods within India. Policy is valid for one year and all transits during the policy period and declared are automatically covered by the insurance company subject to the availability of the overall sum insured

It is a stamped document. In this case specific policies are not issued for each consignment. Premium can be collected in advance for the entire estimated value during the policy period. Stamp duty is collected in advance along with premium for despatches to be declared periodically

Specific Voyage Policy

This policy is valid for a single voyage or transit. The policy will be issued before the voyage starts. The coverage will cease immediately on completion of the voyage.

The specific voyage policy must show complete details of the risk. It should contain particulars of conveyance / Vessel name / Bill of Lading or Way bill and date, sum insured terms and conditions of cover voyage cargo description etc like all other marine policies.

Annual Policy

This policy may be issued to cover goods in transit by road or rail or sea from specified depots or processing units owned or hired by the insured. The goods covered must belong to or held in trust by the insured.

These policies cannot be issued to transport operators clearing forwarding and commission agents or freight forwarders or in joint names. They cannot be assigned or transferred. For such policies the sum insured should not be less than Rs 5000/-.

Significant Audit Checks- marine under-writing

- Are the basic rates adopted commensurate with risk accepted?
- Whether additional rates charged for giving wider covers.
- Where new business is accepted, is there a system of obtaining claim experience details from previous insurer, before quoting the rates.
- Whether additional premium charged for despatches through private carriers.
- Was premium received, before risk \ cover commenced.
- Is there rate discrimination amongst different clients for similar risks accepted and if so, justification obtained \ recorded?

Audit of Marine Cargo claims

- Was sufficient undeclared balance available before the goods were despatched?
- Was the consignment despatch declaration received before claim occurred?
- Was damage \ shortage \ non-delivery certificate obtained from carriers?
- Whether claim was lodged on carriers within statutory period to protect subrogation rights of insurers.
- Ensure that no claim is settled based on excluded perils
- If subrogation rights have been jeopardized, was the claim treated as non-standard?
- Was the claim assessed on market value basis?
- Where carriers' liability was admitted and claim settled, did BO \ DO initiate recovery proceedings against carriers for inadequacy of services. (To recover part of loss).
- Where despatches were through private carriers, was the claim restricted to 75%.
- If not, was additional premium collected for waiving the above claim restriction?
- Have all losses due to inherent vices been excluded from the claim assessment?
- Whether Steamer \ port survey was arranged and claims lodged to protect subrogation rights of insurers
- Ensure that all warranties are carried \ complied with by carriers
- Analyse justifications for settling claims as non- standard \ ex-gratia basis

A. Marine Hull

Scope of Cover: All risks relating to Vessels, Floating Dry Docks, Jetties and Ship-owners Interests including Hull & Machinery (H&M), Freight, Disbursements, Increased Value, Premium Reducing, Excess Liabilities, Protection and Indemnity (P&I) Liabilities, Charterers' Liabilities, Charterers' Freight, Charterers' Hire and/or Disbursements, General Average Disbursements, Ship Repairers' Liabilities, Shipbuilding Risks, Ship breaking Risks and other allied interests of whatsoever nature required to be insured in India.

Risks covered: The policy covers perils of the seas, rivers, lakes or other navigable waters loss / damage to the property insured caused by:

- Fire, explosion
- Stranding, sinking etc.

- Overturning, derailment (of land conveyance)
- Violent theft by persons outside the vessel.
- Collision
- General average sacrifice, sacrifice, salvage charges
- Jettisons
- Piracy
- Breakdown of or accident to nuclear installations or reactors
- Contact with aircraft or similar objects, or objects falling therefrom, land conveyance, dock or harbour equipment or installation.
- Earthquake volcanic eruption or lightning.
- Crew Negligence.

Marine Hull Exclusions:

Marine Hull policy does not cover loss \ damage due to:

- Deliberate damage / destruction of the vessel by wrongful act of any person
- Use of any weapon of war employing atomic / nuclear fission and or fusion.
- Radioactive Contamination, Chemical, Biochemical, Biological, Electromagnetic Weapons.
- Insolvency or financial default of the vessel owner /operators /charterers
- War / civil war, Strike, Riot or Civil Commotion
- Any terrorist or person/s acting with political motive

TAC had prescribed tariff rates for different types of vessels such as Inland vessels and Ocean Going vessels on the basis of sum insured.

Charging of premium depends upon the following:

- Whether mechanized \ non-mechanized
- Number of trading zones covered by the vessel
- Lay-up warranty
- IRS certificate
- Build of body-viz. Steel \ fiber \ glass
- CRO clause

- Cover opted - Basic or wider, PA cover for the crew, wider than TLO cover SRCC cover and period covered

Audit of Marine Hull under-writing Checks

- Valuation certificate obtained before under writing policy?
- Basic Rate computed according to valuation certificate and Tariff Scales.
- Additional rates charged for additional Trading Zones and additional covers.
- Additional rates charged for waiver of monsoon lay-up warranty.
- Discounts allowed for fleet, body construction, IRS \ CRO etc. are supported by appropriate authority.
- Computation of installments is correct and whether installments are received on due dates.
- Underwriting is as per the information given in the proposal form.
- In the case of Vallams \ Catamaran filled with outboard engines, premium has been charged at the applicable rate.

12.6 Audit of Marine Hull Claims:

General Checks to be exercised are:

- claim is caused by an insured peril, during the policy period and that liability is admitted.
- reinstatement value is properly assessed.
- there is no willful misconduct to prefer a claim
- Genuineness of the operation of insured peril is established by surveyor
- Policy excess including voluntary excess is deducted, where opted.
- Time, date and place of occurrence are the same in claim intimation \ survey Report.
- Certificate for compliance of 64VB (premium to be received before inception of cover) enclosed.
- close proximity claim- if yes, needs to be investigated
- any breach of warranty material to the loss \ damage reported
 - a. Are the rates charged in the policy in accordance with the description given in the survey report?
 - b. All supporting documents \ vouchers \ bills submitted by insured are in order.
- place of accident \ damage within the zone covered in the policy.
- claim had occurred during the lay-up period.
- claim reported to port authorities
- claim occurred during monsoon-was that period waived in the policy at inception?
- certificate(s) of Registration and cancellation obtained by surveyor (for total loss)

- Method of computing under-insurance is satisfactory.
- assessment made is acceptable and as per policy conditions
- insured had put in loss minimization efforts
- penalty premium deducted from claim amount for any breach of warranty
- reinstatement premium adjusted from claim amount
- settlement of claim as standard \ non-standard \ Ex-gratia claim is correct.
- there in-ordinate delay in submission of survey report \ intimation of claim
- claim settled \ repudiated by an authority competent to do so
- analyse reasons \ evidence for reopening the repudiated \ non-standard or ex-gratia claims
- justification on valuation of salvage \ disposal
- In case any fraud has been detected earlier and any surveyors \ agents black listed whether the names are circulated to all other DOs \ companies.
- In case such list of black listed surveyors \ agents has been received from any other DO \ Company whether those agents have been awarded any work.
- Is proper routing procedure relating to processing of claims adhered to?
- As and when on account advances are made or claims are settled, it is to be ensured that reinsurers are duly informed and proportionate recoveries effected therefrom.

B COMPREHENSIVE PORT PACKAGE POLICIES:

Cover can be purchased by:-

- Port Authorities
- Port / Terminal operators
- Private Jetty Owners

Scope of Comprehensive covers:-

- Physical Damage
- Third Party Liability
- Business Interruption
- Terrorism
- Wreck Removal
- H & M Cover for Vessels

Exclusions:

- Confiscation, requisition, detention

- Blocking of sewers, drains
- Wear & Tear, deterioration
- Error in design, workmanship
- Mechanical / Electrical Breakdown

(C) OIL & ENERGY RISK INSURANCE POLICIES:

Cover can be purchased by - Oil and Energy Industries.

Scope of Comprehensive covers -

- Offshore / Onshore constructions / Erections (Builders Risks)
- Production / Operation Cover - Well head platform / process platform.

Exploratory Drilling (Off-shore – Jack-up Rigs, Drilling Rigs, Semi Submersibles etc. On-shore- Fixed Land rigs, Mobile Land Rigs, Work-over Land rigs)

- Seismic Survey
- Single Buoy Mooring (SBM)
- Under water pipeline / Cable Insurance

Claim Intimation and Steps to Be Taken by Owners:

In the event of casualty likely to give rise to a claim:

- Immediate notice to policy issuing office giving brief details as to name of vessel, place of occurrence, date & time of casualty, circumstances leading to incident.
- Seek appointment of surveyor to inspect and assess loss.
- In case of theft notify police and register FIR.
- In case of fire, seek assistance of fire brigade to extinguish fire.
- Appointment of adjuster in case of Oceangoing Vessels where necessary.
- All steps to minimise loss as prudent un-insured.

Documents Essential:

- Certified copy of note of protest by master
- Marine casualty form issued by M.M.D.
- Insured's report on occurrence.

- Survey Report
- Original Repair Bill, cash memo, Invoices
- Weather Report by Meteorological Dept.
- Affidavits filed by rescue vessels
- Certificate of survey for inland vessels
- Registry certificate
- Free board certificate
- Load line certificate (where applicable)
- Status / copies of Mandatory certificates
- Notarized statements of master and chief engineer of the vessel.
- Log Book extracts (Engine & Deck)
- Crew list with details of competency certificates.
- Copy of Claim bill with supporting documents.

Audit checks:

- Ensure that claim had occurred due to an insured peril covered in the policy
- Also ensure that no claim on account of an excluded peril is entertained
- Ensure that the time and occurrence are within the policy period and the locations specified therein
- Ensure that all the documents cited are enclosed by the insured and are genuine
- Ensure that occurrence of claim as reported by the insured and that investigated by the surveyor coincide with the facts of the case
- Ensure that the quantum loss as assessed by the surveyor is as per the indemnity offered by the insurer under the policy
- Ensure that the insured does not derive any pecuniary benefit out of the claim settlement other than the indemnity contemplated in the policy.
- Ensure that insure had complied with all the warranties under the policy

12.7 Head Office Departments: Technical Departments (Fire, Marine, Engineering)

Claim settlement and underwriting proposals including refunds beyond RO powers are referred to Head Office. While conducting audit of Technical departments in HO, it may be ensured that all checks conducted at DO level in respect of claim settlement and underwriting \ refunds are taken care of at the Head Office level also including delegation of powers for claim settlements. More importantly, claims recommended for settlement on non-standard \ ex-gratia basis may be thoroughly checked to satisfy that claims which ought to have been repudiated are settled in insured's favour. It has also to be checked whether details of claim settlement have been furnished to Co-insurers and re-insurance department and that necessary recoveries are effected from co-insurers and re-insurers.

Non-Technical Departments

Housing Loan Department

Following points may be seen in Audit

- Where housing loan facility is availed but eligible staffs continue to occupy leased \ office quarters, additional interest needs to be charged
- Where both husband and wife are employees of General Insurance Industry, occupying Company's quarters, both should forgo their claims for HRA
- Where housing loan is availed but property is let out, higher rate of interest needs to be charged on such loans
- ensure that the property is mortgaged
- ensure that all outstanding are recovered from staff leaving the Company due to resignation \ VRS \ retirement etc.

Establishment Department

- ensure that all advances paid to employees towards tour, festival, vehicle, furniture etc are recovered in due time and with interest
- In respect of LTC advances, ensure that there can be no double claims for the same block years.
- In respect of TA advance where journey not performed, such advances need to be recovered immediately in one lump.
- For LTC availed by air, the difference between air fare and entitled class fare shall be treated as a perquisite and proportionate tax recovered
- time limits fixed for rendering adjustment bills of TA \ LTC shall be enforced

- pending vigilance cases need to be reviewed
- differences between recovery and remittances towards GSLI be reconciled
- delays, if any, in all remittances to LIC need to be reviewed

Personnel Department

- Are adequate norms fixed for recruitment of staff at different levels and being reviewed from time to time?
- Is there any system of maintaining service records of staff and is it adequate?
- Are there any vigilance cases pending?

Administration Department

Propriety audit on all purchases and all revenue expenses and expenditure incurred on repairs \ maintenance needs to be conducted.

Management Services Department

Audit verification involves the following checks

- Are the short term \ long term objectives clearly laid down and the same constantly updated suiting Company requirements and the latest software available in the market?
- Are the objectives of MSD vis-à-vis output being evaluated?
- Are there procedures laid down for the purchase of computers?
- Are in house systems \ software developed by the department?
- Where software is procured from outside agencies, is there freedom for the company to amend \ modify \ improve the software or forced to depend on the source for all additional requirements \ modifications carrying huge price tag and time delays?
- If company has to depend on source for improvements, cost paid by company for each amendment vis-à-vis economy outright purchase of software may be evaluated
- Is there continuous evaluation \ updating of systems \ software to attain the targets set?

Estates Department: Audit checks include

- ensuring that all company properties are utilized for the purpose for which they were purchased

- ensuring that all existing quarters occupied before approving proposal for acquiring additional properties and investigate reasons for vacancy
- Whether proposals pending are according to budget allocation?
- Did the Company obtain legal opinion before concluding the contract?
- Were the payments effected are in accordance with the contract terms?
- Was possession taken in time and title to property secured?
- Where company quarters are occupied by staff, the system shall ensure that such staff do not draw HRA

Central Finance & Accounts Department

Following items have to be verified.

- Service Tax collected \ accounted
- Environment relief fund \ interest collected and invested
- Head Office A \ c with ROs including Claims paid by HO on behalf of DOs \ ROs
- Housing loan
- Exchange gain \ drain including funds transfers \ remittances overseas
- Provision towards, pension, leave encashment, gratuity with actuarial valuations
- Reconciliation of amounts to \ from GIC \ subsidiary Companies towards, staff mediclaim, group mediclaim of LIC, Pass & Hut, Crop Insurance (premium & claims)
- Transfer of Funds to and remittances from ROs including remittances in transit
- Whether there is undue delay on the part of DOs \ ROs or banks in the transfer of funds
- Provision for IBNR \ Orphan claims \ solatium
- Reconciliation between CFAC and RI department
- Other Co-insurance balances amongst subsidiaries with reference to confirmation received
- Suspense accounts, Sundry Debtors \ Creditors
- Reconciliation and consolidation of TBs of RI, investment, Housing loan, Establishment Departments etc with CFAC
- Review of DJVs and JVs, closing entries
- Advance tax payment \ provision for taxation, refunds if any pending

- Booking of Overseas Branches Accounts, if any
- Bad debts written-off, Reserve for Bad Debts
- Provision for dividend
- Investment reserve

Marketing & Advertising Department

(a) Marketing Audit may verify

- reasons given for first and second car loans are in accordance with the scheme.
- various interpretations given by marketing department on incentives, business credits etc. reflect the intention of the Government.
- the Company increased its market share due to new Marketing Strategies adopted?
- Whether company has a methodology to correlate the results with the expenditure incurred on new strategies

(b) Advertising Department

The following points have to be verified in Audit

- Mode of selection of advertising agencies \ media
- Is there a system of receiving market feed back
- If yes, is the feedback evaluated in terms of monetary value
- Has the market share of Company, increased due to the effort of advertising.

Reinsurance Department

Reinsurance is the insurance of insured properties viz. reinsuring the risks accepted and underwritten by the insurance companies. It operates on the same principle as direct insurance, which is to spread sharing of the risk as wide as possible. The main objectives of reinsurance are:

- To increase the capacity to handle large risks.
- To provide cushion against sustaining huge losses
- To optimize retention of premium within the country
- To stabilize operating results by leveling out peak risks \ losses
- To secure the best possible results at optimum costs.

Reinsurance is a method whereby the original insurer transfers all or part of a risk it assumed, to another Company or Companies with the object of reducing its own commitment

to an amount that it can bear on its own account in the event of high magnitude losses viz. losses caused by flood, earth quake.etc

The following items are to be scrutinized in Audit:

- Does the Company prepare a list of listed risks (where leader) and major losses department wise, every year.
- Is there a system of reviewing the Probable Maximum Liability at frequent intervals and how scientifically the PML is arrived at?
- Have all the monthly RUC returns (department wise) indicating the premium, claims paid and outstanding from all ROs received and necessary entries posted in RI?
- Are all deviation from re-insurance programme framed justified?
- Can the system in Re-insurance department detect
 - (a) Non-receipt of a specific RUC return for a particular month from a certain RO
 - (b) omission to include premium of a Listed Risk including installment premium claim paid \ outstanding.
 - (c) non-receipt of \ duplication of cessions to treaties
 - (d) paid claims appearing in outstanding claims list
- Whether Cessions registers are verified with reference to Bordeaux to ensure no omissions.
- All quarterly returns including supplementaries furnished to GIC on Premium ceded and commission to be received in respect of
 - obligatory cessions
 - inter group treaties
 - market Pool (Fire & Hull)
- All losses paid are recovered from the RI arrangements
- Whether outstanding losses at year end are intimated to Re-insurers in respect of cessions and provisions made in respect of inward acceptances.
- It may be seen in audit of Facultative \ Treaty \ Run-off treaty whether
 - Criteria fixed for evaluation of treaty slips are adequate.
 - Periodical returns are received in time
 - There are any missing returns \ double entry
 - Year end returns are not received. Otherwise provisions made are in accordance with accounting policies
 - IBNR provisions made
 - Commission including profit commission computed with reference to treaty provisions
 - Reserve for premium and claims computed with reference to treaty terms
 - Interest on reserves received are monitored

- The system of recording information in inward acceptances are satisfactory
- Journal preparation is in accordance with face sheets prepared
- The system of preparation of brokers accounts adequate
- There is a system of obtaining confirmation of balances, at the year end
- The system of computing the claim ratio adequate
- Suspense accounts reviewed periodically and reconciled
- Provision for doubtful debts reviewed
- The system ensure that all accounts \ returns received before cut-off date are taken into account
- Correctness of accounts rendered during portfolio entry \ withdrawal verified including reserves
- System of reviewing the profitability of treaties – verified
- Company maintains a list of brokers who went into liquidations of have filed for insolvency and reviews the probable losses arising there from and take remedial action in advance

Vigilance Department

Audit has to review all the pending vigilance cases and any lacunae in the system have to be identified and brought out. The remedial measures initiated by the Company have also to be verified.

12.8 Investment Department:

Reserve Bank of India, in March 1994, issued guidelines to all Financial Institutions regarding classification of assets, income recognition and norms for making provisions. Assets are classified into 4 categories viz. Standard, Sub-standard, doubtful and loss assets. RBI also fixed norms for classifying the asset as non-performing asset (NPA). However, the pattern of investment is to be as per Section 27(B) of Insurance Act, 1938 viz., loans to and securities of Central \ State Government for Housing, Fire Fighting etc. & HUDCO.

Since, the loans and securities are backed by the Central \ State Governments, the norms applicable for NPAs are not applicable for these securities. However, income recognition norms as declared in the accounting policies are applicable. It is to be seen whether such norms are complied with and that the investments are within the limits specified. Also ensure that no brokerage is paid for such investments Profits \ loss on redemption accounted correctly.

Audit Checks

Term \ Bridge \ short term loans:

Audit checks include

- Were the loans approved by competent authority?
- Were loans secured properly?
- Are the norms fixed for granting these loans satisfactory and protect company's interests?
- Is the accounting of principal \ interest consistent with the significant accounting policy?
- Is penal interest charged \ collected where payments are defaulted?
- Are defaulters given further loans and justification there for?
- Are debenture defaulters given further term loans?
- Whether the deposit with highest yield was selected?
- Is the interest received \ accrued, according to the terms of investment?
- Where interest is received in advance, was it disclosed \ accounted accordingly?
- Where one time settlements are agreed to, are they in company's interest with the approval of the competent authority
- Are companies, whose share value had eroded in the market, extended loans
- Are debenture defaulters extended term loans, justification thereof etc?

Equity \ preference shares and debentures

Audit verification involves checking the following points:

- Do the investments carry proper sanction?
- Are these investments made as per the directions of GIC or as a part of GIC's commitment?
- Are there criteria fixed for making investment proposals and strictly complied with?
- Are the criteria fixed, sufficient to ensure the security of the proposed investments?
- Is there a proper system to ensure that investment decisions are objective?
- Are there separate criteria fixed for equity \ preference shares and debentures?
- Is the system of accounting receipts of interest, dividend, satisfactory and according to income recognition norms and company's accounting policy?
- Are the contracts for these placed directly or through brokers?

- Is the brokerage paid, if any, as per the contract?
- Is the system of declaring investment as NPA satisfactory and consistent for equity \ preference shares and debentures, term loans?
- Is there a system to ensure that the entire bonus shares \ dividends thereon declared, on investments held, by the Company are received and accounted?
- Where rights issues are offered are they linked to Company's performances before the offer is accepted.
- Are norms for writing down of equity shares, preference shares, and debentures etc. are different or same?
- Was the amount written off, in accordance with the guidelines of GIC?
- Are title deeds available and verified?
- Is the receipt of interest on debentures regular?
- Are the debenture defaulters extended term loans?
- Are the interest warrants being regularly banked without delay?

Certificate of Deposits \ Call money \ Commercial paper etc.

Audit checks involve verification of the following points:

- Are the amounts realized on due dates?
- Where interest received \ accrued \ received in advance are accounted correctly.

12.9 Agents appointment and commission structure

Agents' \ Brokers are appointed to procure general insurance business on commission basis. They are not employees of General Insurance Industry. Agents' brokers are to undergo training as per IRDA terms and agents incensed to procure Life Insurance business can enroll themselves as General Insurance Agents by paying appropriate fees. Each agent, as per the terms of employment and to keep their licenses live is to bring in a minimum amount of business in a year.

Audit Checks

- Was the agency \ brokerage live, when commission \ brokerage was paid?
- Does the proposal form contain agent's broker's authenticity?
- Were the appointments in accordance with the IRDA rules in force?
- Were the commission \ brokerage rates paid in accordance with IRDA rules?
- Where cheques were dishonoured, was the commission recovered in all cases?

- Where Bank interest was incorporated later, was the actual date of inception of Bank interest ascertained from the Bank and commission adjusted?
- If not, in how many such cases was it allowed and the amount allowed verified.
- Is agents control register being maintained and reviewed periodically?
- Is the performance of dormant Agents reviewed periodically?
- Does the Branch \ DO have the system of canceling those agencies where performance warrants cancellation.
- Were such agents codes removed from EDP?
- Was it ensured that IT deductions were made before a \ c payee cheques are issued for commission?
- Was any test check conducted to ensure that cases where brokerage commission was not to be allowed was actually allowed.
- Are there instances where direct business was converted and agency commission \ brokerage paid, without proper reasons authentication?

12.10 Tariff Advisory Committee

Tariff Advisory Committee which has its Head Office in Mumbai is a statutory autonomous body under the Insurance Act 1938, which formulates and administers Tariff for major classes of general insurance business such as Fire & allied perils, Petrochemicals, Marine Hull, Engineering and Motor. Tariff encompasses rates, terms and conditions of General Insurance business and provides for evaluation and rating based on individual features of larger industrial units.

Audit of TAC \ Regional Committee Accounts

The Comptroller and Auditor General of India is the sole auditor for TAC. Audit of TAC including Provident Fund Accounts and Gratuity Accounts is carried out annually. During the transaction audit of TAC the minutes of Technical committee have to be reviewed. The points to be seen in the transaction audit of TAC are:

- Whether frequency of risk inspection is adequate with reference to the norms fixed.
- Whether the ratings are supported by relevant data bank.
- Whether frequency of revision in Probable Maximum Loss (PML) is as per norms fixed
- How scientifically PML is arrived at?

- Whether proper documentation exist for special features of individual risks, where discounts have been granted.
- Whether discounts including fleet discount relating to Hull underwriting is proper.
- Whether there are delays in submission of risk inspection reports.

12.11 Functional Areas and Periodicity

Functional Areas	Periodicity
8 Regional Offices (Madras, Hyderabad, Bangalore, Madurai, Kochi, Vizag, Coimbatore and Hubli) of UIIC, all ROs of NIC, NIAC and OIC in Southern Region.	Triennial
5 Major Departments (Fire Technical, Miscellaneous Technical, Marine Cargo Technical, Investment and Reinsurance)	Annual
15 Minor Departments (Engineering Technical, Marine Hull Technical, MTPCO, Rural Insurance, Marketing, General Administration, HRD & Personnel, Establishment, Housing Loan, CFAC, Learning Centre, MSD, Motor Technical, Internal Audit and Estate)	Triennial
131 Divisional Offices of UIIC and all Dos of NIC, NIAC and OIC in the Southern region.	Triennial
Madras Regional Office - Tariff Advisory Committee	Triennial
4 units of Agricultural Insurance Company of India	Biennial

Note: In respect of various policies issued under the Engineering and Miscellaneous branches, which are not detailed here to avoid repetition, Insurance Manual may be referred to for exercising detailed checks on under-writing and claim settlement under each policy.

CHAPTER 13

COCHIN SHIPYARD LIMITED

13.1 Introduction

Cochin Shipyard Limited was established as a full-fledged project office under Government of India in the Ministry of Shipping and Transport in 1970. On 29 March 1972, a Company styled 'Cochin Shipyard Limited' was registered under Indian Companies Act 1956 as a fully owned Central Government Company.

13.2 Objectives

The main objects of the Company are to carry on all or any of the business of builders, owners, rights, brokers, repairers, operators, agents, refitters, vendors and \ or salvages of ships of all kinds including passenger ships, oil tankers, bulk carriers, container ships, war ships, naval vessels, crafts and fleet auxiliaries, aircraft carriers, destroyers, frigates, supply vessels, dredgers, lightships, tugs, barges, launches, lighters, floating cranes and other floating crafts for various purposes.

13.3 Capital Structure

The authorized and paid-up capital of the Company stood at Rs.250 crore and Rs.192.42 crore respectively as at 31 March 2003. The entire share capital is contributed by Government of India.

13.4 Main Activities

- (a) (i) Ship Building
- (ii) Ship Repair
- (b) Other Activities (e.g.) off shore upgradation
- (c) General Engineering works Sheet & pipe Fabrication works - building tugs, building small crafts.
- (d) Marine engineering training Institute

Ship Building

The installed capacity of the shipyard for ship building has been reckoned as two ships of 75000 DWT per year in terms of Panamax type Bulk carriers.

The important stages in ship building are

- Keel laying

- Hull fabrication
- Main Engine erection
- Float out
- Auxiliary machine erection
- Piping outfit
- Hull outfit
- Electrical outfit and
- Delivery

Other Functional Departments

The main departments are

- Ship Building
- Ship Repair
- Projects & Engineering
- Finance & Accounts

The ship repair department functions as an independent unit of the Company. It has its own purchases stores, production, sub-contract and commercial wings.

13.5 Ship building

(a) Records \ registers maintained

- Indents
- Purchase order files
- Records relating to consumption of raw materials
- Disposal of scrap
- Receipt \ issue of steel
- Installed capacity \ budgeted capacity
- Technical matters regarding ship building materials, machinery and equipment
- Correspondence relating to ship building with Ministry

(b) Audit Checks

- The major raw materials used in the ship building process are steel, pipes, paint and bought out components. Check consumption with reference to requirements.\ budget
- Material procured in excess of requirement.
- Scrap generation wastage norms, disposal. norms and revenue generated etc
- Proper accountal and usage of steel issued to outsiders, consumption norms.
- Terms and conditions and sub-contracts, whether they are on back to back basis.
- Whether the Work Completion Certificates (WCC) are signed by the ship owners without delay.

- Whether the bills \ invoices are varied within the time limit prescribed or whether there had been any delay on the Company.
- Whether the bills \ invoices are settled by the owners within the stipulated time limit.
- Reasons for LD claimed by ship owners to be analyzed.
- Justification for discounts provided to be analyzed.
- Emergency purchases and justification for the same.

(c) Other General Checks

- Review of utilisation of plant capacity and reasons for part utilisation \ idleness.
- Review of progress of construction of ships as per scheduled targets and the reasons for shortfall if any.
- Scrutinize whether any norms have been prescribed for consumption of raw materials and review the system of material control, issues and consumption of raw materials within the norms prescribed.
- Similar checks to be exercised on other materials for consumables, bought out components, etc.
- To ensure that norms for wastages have been prescribed and actual wastages are within the norms prescribed. Causes for abnormal wastages may be examined and commented upon.
- In respect of major raw materials viz. steel, pipes and paint detailed design specifications are prepared. Based on these specifications indents are raised and purchases made. Design department estimates quantities of raw materials required for each ship. Check may be exercised to ensure that the purchases are well within the design requirements and if not the reasons for the same to be investigated.

13.6 Ship Repair

(a) Records \ registers maintained

- Correspondence with shipping companies, government departments etc.
- Dock occupancy register
- Quay occupancy register
- Bill register
- Work register
- Imprest account register
- Returnable and non-returnable gate pass registers
- Overtime registers
- Postal despatch registers
- Tender issuing and opening registers
- Purchase order and sub contracts

- Surveyor's report, engineers report, job cost sheets
- Consumption of materials for repair works

(b) Audit Checks

- Review of the purchases and sub contracts to ensure the adequacy of the system of calling quotations, placing of orders, receipt and inspection of goods, payment of bills, issue and stock of stores.
- Review the bills relating to repairs of vessels with reference to surveyors report, engineers report and international tariff rates for repair works. Ensure that expenses relating to a particular ship repair job are correctly charged to that job.
- Review total occupancy of the repair dock throughout the year and achievement of installed capacity.
- Review of job cost sheets of each ship repair job in order to compare the cost of each job with the estimate and the amount invoiced and comment upon the losses, if any.
- To ensure that the yearly financial targets are achieved in terms of ship repair revenue.
- Review of consumption of materials in respect of major ship repair works undertaken.
- Check whether proper justification is available for emergency purchases resorted for ship repairs.
- Check whether discounts allowed are reasonable.
- To ensure that agreements were drafted for additional repair works envisaged \ done during the course of ship repair.

13.7 Projects and Engineering

(i) Material Management

(a) Records \ registers maintained

- Purchase order register
- Register of indents
- Bin cards and store records
- Sub contract register
- Priced stores ledger
- Physical verification reports
- List of non-moving \ slow moving items
- Survey committee reports
- Insurance claims

(b) Audit Checks

- Review the adequacy of the system of calling quotations, placing of purchase orders, receipt and inspection of goods, payment of bills, issue and stock of stores.
- Scrutiny of stock holding with reference to the maximum and minimum prescribed.

- Study of periodical inventory reports with special emphasis on non-moving and slow-moving items.
- Review of physical verification reports and settlement of adjustments.
- Maintenance of proper accounts for the collection and disposal of scrap, wastage etc.
- Review the system of awarding work to sub-contractors and entering into annual rate contracts.
- Investigate cases of theft, fraud and misappropriation of materials.
- Review of Survey Committee reports.
- Scrutiny of Insurance claims on materials lost \ damaged in transit.
- Examine whether stores procured on emergency basis for ship repair work are fully utilized.

(ii) Works Bills

(a) Audit Checks

- To ascertain whether capital expenditure is being incurred in accordance with realistically prepared estimates.
- To ascertain whether approval of the competent authority is obtained before undertaking any work.
- To ascertain whether contracts are awarded only after proper tendering procedure is followed and that the lowest technically qualified tender is accepted and reasons for passing over such tenders are invariably recorded in writing.
- To ascertain whether stipulations in the contracts are being scrupulously observed.
- To ascertain whether expenditure incurred for specific works exceeds the estimates and the reasons therefor.
- Are such instances frequent and if yes the same needs to be investigated
- Verify whether Works Bills are being compiled in accordance with contract terms.
- Ascertain that recoveries made from the contractors against material \ cash advanced etc. are correct. Verify documentary evidence in support of advances to contractors.
- Verify whether rates specified in the Works Bills are in conformity with the contract.
- Ascertain whether the works are being completed within the stipulated time. If not whether the stipulations for liquidated damages are being invoked \ recovered
- Ensure that approval of the competent authority is obtained with the concurrence of Finance for all deviations in excess of approved quantities \ rates.
- Ensure that Security Deposits are being refunded only in accordance with contractual provisions.
- Ensure balances in subsidiary records for Earnest Money, Security Deposits etc. are periodically reconciled with the Ledger balances.

(iii) Contracts

The Company's main objective being ship building \ repair, agreements are entered into with ship owners (mainly Shipping corporation of India), other private parties for

producing Oil tankers \ passenger ships etc. The technical know-how for design and manufacture of ships, collaboration agreements are generally entered into with foreign ship builders for design and consultancy.

Audit Checks

- Scrutinise contracts and agreement with particular attention to extra items and escalations, drawings, specification etc. entered into with ship owners for construction of ships as well as contracts for ship repair and construction, jobs and see that provisions of connected legal documents as well as other instructions are duly implemented.
- Scrutinise contracts with foreign agencies, technicians and shipyards, for design and drawings and other commitments connected with erection, installation and supervision of machinery, equipment etc. to ensure that no additional benefits are derived by foreign agencies.
- Review the expenditure on construction projects and expansion schemes to ensure that schemes progressed according to schedule. Investigate reasons for upward revision of estimates if any.
- Review Arbitration cases and findings of special committees set up for specific purpose, and orders passed thereon and implementation thereof to see whether they present any unusual features and that decisions are finally implemented.
- Scrutinise bills in respect of major works to see that rates for stores and labour are properly charged, overhead recovered are not less than actual overhead incurred and rebates allowed are in accordance with the rates laid down in the agreement.
- Review reasons for entering into foreign collaboration agreement, system of calling for tenders \ quotations and for the selection of one particular foreign Company.
- In the case of civil works contracts, review the system of awarding works contracts, issue of materials for construction, progress of completion in each stage and scrutinise the bills in order to find out whether payments were made in accordance with the agreement and no extra benefit is derived by the contractor.

13.8 Finance and Accounts

(i) Payroll and Establishment

(a) Records \ registers maintained

- Pay roll
- Payments in respect of superannuation, Voluntary Retirement Scheme etc.
- Pay fixation
- Loans and advances
- Overtime register

(b) Audit Checks

- Ascertain whether the disbursements are in conformity with the rules and regulations.
- Ascertain whether deductions made from the pay bills are correct and complete and such deductions are remitted to the appropriate authorities in time.
- Examine terminal payments in respect of superannuation, VRS etc.
- Examine the system of pay fixation and whether this is in line with the office orders.
- Check the overtime calculations with reference to the supporting records and see that proper authority exists for incurring the overtime and that the calculations are correct.
- Check that advances of pay, TA, LTC, festival advance, motor car \ scooter \ TA advance etc. are sanctioned in accordance with rules.

(ii) Purchase and Suppliers' Accounts

(a) Records \ registers maintained

- Purchase orders
- List of approved suppliers
- Advances to suppliers
- Customs duty
- Port trust charges
- Payments to customs, port

(b) Audit Checks

- Verify if the company maintained list of empanelled suppliers for different materials
- Ensure that all payments to supplies received and incidental expenses incurred, are in accordance with the contracts \ purchases orders and are legitimate and correct.
- Examine the procedure regarding off specifications materials
- Review sundry debtors \ creditors balances and timely action to realize longstanding dues
- Examine whether advances to suppliers are being properly adjusted.
- Examine ad hoc and cash purchases to see that the prescribed procedure is followed.
- Ensure that payments for imported stores conform to the purchase orders. Payments towards customs duty, port trust charges, clearing agents fees etc. may be checked to see that they have been correctly calculated according to Tariff \ Rates \ Agreements and actually incurred.
- Check that deposit payments to customs, port and other authorities are adjusted promptly and refunds obtained wherever necessary.

(iii) Costing and Management Information

The Company follows the system of job costing under which costs which are directly attributable to a job are charged to the job and the rest of the expenses are allocated as

overhead. The Company is also having a management information system. Monthly, quarterly and yearly reports are submitted to the management and the Government, appraising the position of various operations, progress of work and other information useful for taking managerial decisions.

Audit Checks

- Review the costing and management information system and comment upon the effectiveness \ adequacy of the system.
- Review the system of fixing responsibility for controlling cost.
- Review the cost of manufacture \ repairs with reference to estimates and fixation of selling price.
- Review cost sheets and ensure that proper utilisation of materials, labour and machines
- Review the reports and manual financial management and accounting procedure in the Company and see whether the recommendations and suggestions for improvement are implemented.
- Review the system of allocation of overheads to various jobs.
- See whether standard labour hour rate for each category of labour is computed as per manual.
- Review technical and financial budgets submitted to management.
- Review various management information reports.
- See that technical budget estimates for various works taken up are correctly prepared and expenditure incurred against these estimates does not exceed the estimated figures. Marked variation may be specifically commented upon.
- Review working efficiency of workshops with special reference to idle labour and unabsorbed capacities of machines.
- Review progress report of manufacturing jobs.
- Analyse budgeted and actual overtime expenses incurred

13.9 Functional Areas and Periodicity

Functional Areas-	Periodicity
Ship Repair & Contracts-	Annual
Finance, Accounts & Sales-	Annual
Project & Engineering-	Annual
Ship Building-	Annual
Accounts Audit-	Annual

CHAPTER 14

NEYVELI LIGNITE CORPORATION LIMITED

14.1 Introduction

Neyveli Lignite Corporation Limited was registered on 14th November 1956 as a wholly owned Central Government Company with the main object of commercial exploitation of Lignite and its utilisation in Generation of power, Production of Urea and Production of Carbonised Briquettes called “Leco” besides Neutral Oil, Tar, Carbolic acid, Xylenol etc.

The Authorised Capital and Paid-up Capital of the Company stood at Rs.2000 crore and Rs.1677.71 crore respectively as on 31st March 2011. The Central Government is holding 93.56 % of the total holding.

The Company has the following production Units

1. Mine-I (10.5 MTPA including expansion)
2. Mine IA (3 MTs per annum)
3. Mine-II (15.0 MTPA including expansion)
4. Barsingsar Mine 2.10 MTPA
5. Thermal Power Station-I (600 MW expanded by 420 MT)
6. Thermal Power Station-II (1470 MW)
7. Barsingar TPS (2 X 125 MW)
8. Fertilizer Plant (Production stopped from 02 \ 2002)
9. Briquetting and Carbonisation Plant (closed with effect from 28.02.2002)

In addition there are several auxiliary service units like Workshop, Transport Yard, Belt Reconditioning Shop, Printing Press, Stores, Township Administration, Hospital, etc.,

14.2 Objectives

The objectives laid down in the Company’s Memorandum of Association were mainly to carry on (i) Mining, (ii) Utilisation and processing of Lignite, (iii) Manufacture of Fertilizers, Coke and Chemical by-products, (iv) Generation and Sale of Power, (v) Marketing of Urea, Leco, Chemical by-products and Waste products.

14.3 Brief description of the Manufacturing Process

(a) Mines

Removal of overburden and excavation of Lignite in the open cast mine is done using specialized mining equipments such as Bucket Wheel Excavators (BWEs), Spreaders, Mobile Transfer Conveyors, etc., as well as with the conventional mining equipments like Shovels, Loaders, Dumpers, etc., in both Mines-I and II.

(b) Thermal Power Stations

Lignite, used as a raw material for the generation of power, is mined in the First and Second Mines and fed into TS-I and TS-II through a system of Conveyors. All the power generated in TPS-I, except that consumed by the company, is exported to TNEB. Similarly power generated in TPS II, except that consumed in Mines-II, is fed into Southern Grid for export to Southern States and Union Territory of Pondicherry on allocation basis.

14.4 Special acts, rules, documents, etc. to be referred to

- Indian Mines Act, 1952
- Indian Electricity Supply Act, 1910
- Electricity Supply Act, 1948
- Electricity Act 2003
- Mining Lease Agreement between the Government of Tamil Nadu and NLC Limited
- Agreement between TNEB and NLC for supply of power from TS-I, Agreement between Southern Electricity Boards and NLC for the supply of power from TS-II.
- Orders of Central Electricity Regulatory Commission of State Commissions
- Order of Government of India fixing retention price of Urea from time to time.
- Essential Commodities Act as amended from time to time

1. Mines-I & II

(a) Records \ Registers Maintained

- Monthly Production Statement
- Review of Statistical data
- Monthly Statement of system-wise performance
- Monthly Cost Statement and cost review note
- Conventional Mining Equipments like Dumpers, Shovels, and Dozers etc. Monthly output return and summary of operation

- Specialised Mining Equipments like Bucket Wheel Excavators, Spreaders and Mobile Transfer Conveyors etc. output return
- Plant Movement Return
- Monthly Statement of Drilling and blasting operations
- Statement of change of buckets and teeth in Bucket Wheel Excavators
- Inter-unit adjustment accounts for supplies \ services with other units
- Monthly statement of drawal of costly spares
- Measurement Books
- Materials-at-site
- Local Purchases
- Log books and records of Belt Reconditioning Plant

(b) Audit Checks:

- Review of production with reference to capacity of the plant and target fixed by management and examine reasons for wide variations.
- Review of overburden - lignite ratio, to ensure that removal of overburden keeps pace with extraction of lignite.
- Examine the method used for measuring production, closing stock
- Review of output of mining machinery with reference to norms fixed and analyse reasons for shortfall, if any, in actual output.
- Review stoppage analysis of equipments and plants to identify avoidable downtime of machinery and corrective action taken.
- Examine cases of changes of teeth and buckets in excavators to identify premature failure of teeth and buckets.
- Review consumption of explosives with reference to blasting operations (Mine-I).
- Review requirements and utilisation of costly spares for mining machinery and other equipments.
- Review quarterly \ annual stock verification reports and verify whether difference noticed in stock verification is properly adjusted.
- Review working of production incentive schemes with reference to actual payments made and production data and verify whether targets fixed for payment of incentive are realistic based on productive capacity of the plant and are not on lower side.

2. Thermal Power Stations I & II

(a) Records \ Registers Maintained

- Monthly statement of meter reading with unit-wise generation, auxiliary consumption, export of power- daily reports
- Reports under ABT regime
- Monthly reports to Chairman

- Correspondence with TNEB and review of TNEB agreements
- Monthly cost statement and cost review note
- Agreement with TNEB & Southern State Electricity Boards for sale of power
- Contract \ Purchase order - payment files
- Correspondence with CERC and state commissions
- Monthly production records
- Records of Lignite \ Oil handling system
- Records relating to payment of tax on consumption of electrical energy
- Monthly bills for supply of power to TNEB & Southern States including receipts
- Records relating to stock, consumption of consumables and drawal of costly spares
- Measurement books
- Materials-at-site and work-in progress accounts
- Local purchases
- Records relating to Insurance, customs etc.

(b) Audit Checks

- Examine the methods of metering generation of Electricity and ensure energy Meters are periodically calibrated.
- Check receipt of lignite with dispatch figures of mines and ensure that loss in transit is within the norms fixed if any.
- Review of auxiliary consumption of Thermal Station and analyse causes for abnormal variation.
- Check gross generation with sale of power and consumption by other units and analyse the transmission losses.
- Investigate shutdown periods of generating units in TPS for want of demand from Tamil Nadu Electricity Board \ Southern Electricity Boards.
- Examine reasons for frequent start-ups and shutdown of boilers.
- Examine statement of frequent readings with the invoices raised on TNEB \ SEBs and debits raised on other consuming units.
- Review working of production incentive schemes with reference to actual payments made and production data and verify whether targets fixed for payment of incentive are realistic based on productive capacity of the plant and are not on lower side.
- Review trading in un-requisitioned capacity.
- Litigations with clients.

3. Expansion Projects

(a) Mine-I Expansion, Mine-IA and Thermal Power Station-I Expansion

Audit Checks

- Analyse justification for expansion
- Review effect of land acquisition delays on implementing expansion schemes

- Review the basis for allocating common expenses between construction and production.
- Analysis of arbitration cases bringing out number of cases in which awards were received, amounts claimed by the contractors and NLC in order to highlight the system deficiencies, if any.
- Review contract with consultants for expansion and new projects and verify whether payments to consultants are in accordance with the terms of contract.
- Review contracts with suppliers of equipments for erection of machinery.

4. Purchase and Contract Functions

Two General Managers hold charge of Purchase and contract functions:

(a) **General Manager (Material Management)**

Responsible for procurement of consumables \ spares for Plant and Machinery for ongoing schemes and consumables \ common spares for the project.

(b) **General Manager (Contracts)**

All Contracts relating to design, supply, erection and commissioning in respect of Thermal Stations and Mines including civil works contracts.

5. Contracts

(a) **Award of work**

- Examine whether procedures laid down procedures in respect of –preparation of quotations, calling for tenders, opening of technical and financial bids, evaluation of bids, preparation of comparative statements, selection of L1, anyone other than L1 to be supported by justification and appropriate approvals etc. have been strictly complied with

(b) **Execution of Agreements**

- These have been executed by the contractor within the stipulated time provided for the same in the contract clause, and, if not, whether any penalty levied
- Work order has been issued within a reasonable time after the decision to award the work has been taken by the competent authority
- Time for completion given, scope of work narrated, and rates mentioned are written both in words and figures
- The nature and working of the terms of contract are exact and there is no room for ambiguity or misconstruction therein
- Penalty clause for non-completion of work in time has to be included

- Ensure that all the clauses are drafted without any ambiguity

6. Material Management

(a) Records \ Registers maintained

- Stock verification reports
- Stock levels for various items Stock status reports
- Payment files of all purchase of spares \ consumables
- Review of Inspection-cum-receiving reports
- Priced Stores Ledger
- Payments under annual transport agreements
- Insurance claims files (Marine \ Inland)

(b) Audit Checks

- Verify whether the bin cards are updated regularly and entries therein are made without any delay.
- Verify whether the records maintained enable identification of the age and condition of the stores.
- Ensure that physical verification is carried out annually and the difference between physical and book balances are investigated \ reconciled.
- Check whether the inventory levels are in tune with the maximum, minimum and reordering levels fixed to ascertain whether such levels fixed are reasonable taking into account the average requirements.
- Check whether proper action is taken on the physical verification reports regarding the non-moving, surplus, obsolete stores.
- Ascertain whether damaged and unserviceable stores are ascertained as per the prescribed procedure.

7. Belt Reconditioning Plant

(a) Records \ Registers maintained

- Monthly statement of belt removal and fitment.
- Records of belt reconditioning \ statement of backlog in reconditioning works.
- Monthly belt vulcanizing reports.
- Log books and records of belt reconditioning plant.

(b) Audit Checks

- Review capacity utilization of Belt Reconditioning Plant with target fixed and examine reasons for wide variations, if any.
- Review of system of replacement of belts and their performance and investigate premature failure, if any.
- Utilisation of reconditioned belts.
- Compute cost benefit analysis between reconditioning and procurement of new belt.

8. Township Administration Office

(a) Records \ Registers maintained

- Demand \ collection statements of rents from evidential quarters
- Tender files of works
- Register of vacant quarters
- Library stock accounts of library books, physical verification reports, receipts and refund of deposits
- Guest house records and cinema records
- Bulk purchase for industrial canteens
- Records relating to Land Acquisition for expansion projects and deposits
- Review in cost of maintenance of security – CISF.

(b) Audit Checks

- Review the position of completion reports in respect of Township Construction
- Examine records relating to allotment of houses, shops, etc.
- Review of occupancy and vacant position of quarters
- Demand and collection of rent including outstanding
- Electricity charges, water charges, consultancy charges, etc.
- Review of receipts and issues of library books and physical verification reports
- Review of purchase of commodities for industrial canteens

9. Education

(a) Records \ Registers maintained

- Grant-in-aid register and monthly returns
- Grant Register for sports and equipments

(b) Audit Checks

- Review the procedure for obtaining grants for teaching and for maintenance
- Review of capital expenditure on schools from the State Education Department
- Verify whether all permissible grants are claimed and obtained in time
- See how well the grants received were utilized for the purpose for which they were given

10. Central Service Units

(a) Workshop records

- Machine utilisation statements
- Register of work orders
- Register of requisitions and material analysis
- Register of scrap pending orders etc.
- Job cards
- Time cards

(b) Audit Checks

- Review log books of ancillary equipment such as Cranes, Dumpers, Transport Vehicles, etc.
- Examine utilisation and maintenance of equipment including output

11. Central Maintenance Organization

(a) Records \ registers maintained

- Machine utilisation statements
- Tyres register, battery register relating to FM Yard vehicles
- Records relating to Central Electrical Repair Shop
- Job order register - ICE shop, base repair shop
- Register of requisitions and material analysis statements

(b) Audit Checks

- Review of consumables like tyres, battery etc.
- Review of drawal of spares for Electrical Repair shop

12. Medical

(a) Records \ Registers maintained

- Inpatient register
- Hospital drugs stores, stores account (Kardex, Indent Issue of Medicines to O.P. and dispensaries)
- Laboratory and X-ray department records
- Records relating to Industrial Medical cell
- Local purchase of medicines

(b) Audit Checks

- Review stock account of medicines, surgical instruments and diet articles in the hospital
- Examine bills raised for hospital stoppages against non-entitled persons.
- Review the purchase procedures for medicines

- Test check expenditure with reference to entitlement

13. TCRO

(a) Records \ Registers maintained

- Agreement with DGSD and other clearing agents
- Customs records
- Guest House records
- Local purchase files and Budget files

(b) Audit Checks

- Review contracts for port clearance, loading and transportation of materials
- Review of customs files
- Review of records pertaining to Guest House files
- Review the payments made to port with demands received

14. Central Establishment

Audit Checks

- Review of corporate plans and budgets.
- Review of corporate tax, income tax files
- Review of project funding \ foreign currency loans and interest servicing
- Review of short-term deposits etc. of Central Cash Section.
- Review of finalization of tariff rate with Electricity Boards.
- Fuel supply agreements with private party – CT-SMS- to be analyzed.
- Check cash flow statements.

14.5 Management Information System

A monthly report is submitted to Chairman cum Managing Director covering aspects like Sources and Application of Funds, Scheme-wise capital expenditure and commitment details, production and financial performance, input \ output ratios and operational efficiencies, cost of production, consumption of raw materials, sales and sundry debtors position etc. A flash report is also being sent monthly to the Planning Commission and the Department of Coal, Government of India.

In addition, the Company is submitting the following reports to the Ministry:

(a) Quarterly Reports

- Financial Progress Report indicating Project Cost and progress of expenditure.
- Summary Information relating to production performance, sales capacity, utilisation etc.
- Profit and Loss Account and Financial position at a glance.
- Operating Statement, Current Assets and Liabilities compared with Budget.
- Fund Flow Statements.

(b) Annual Reports

- Report on the internal resources.
- Report on expenditure on Township Social Overhead
- Management Ratios on the performance of the corporation.

14.6 Functional Areas and Periodicity

Functional Areas-	Periodicity
Mines I, Mines I A and Mine I expansion-	Annual
Mines II-	Annual
Thermal I and expansion-	Annual
Thermal II-	Annual
Fertilizer-	Annual
B & C-	Annual
Accounts-	Annual
GM - Materials Management-	Annual
Township Administration-	Annual
GM - Contracts-	Annual
TCRO, Chennai-	Annual
Medical Services-	Annual
Corporate Office, Planning, Investments, Finance and Central Estate, etc.-	Annual
Sales & Disposal-	Annual
Central Mechanical Services-	Annual
Sales Depots	Selection

CHAPTER 15

HINDUSTAN NEWSPRINT LIMITED

15.1 Introduction

Hindustan Newsprint Limited (HNL) was incorporated on 7th June 1983 as a wholly owned subsidiary of Hindustan Paper Corporation Limited, Kolkata.

15.2 Organizational setup

The Chairman and Managing Director (CMD) of the Holding Company (HPC) is the Chairman of the Board of Directors of HNL as well. The Managing Director (MD) of the Company is appointed by the Holding Company with the approval of the President of India. The day to day affairs of the Company are conducted by the Managing Director.

The following are the major departments of the Company:

- Forest Department
- Production Department
- Commercial Department
- Finance and Accounts
- Personnel and Administration
- Civil Works
- Stores etc.

15.3 Capital Structure

The authorized and paid up capital of the Company as on 31.03.2011 are Rs.100 crore and Rs.99.99 crore respectively, which is fully held by its holding company (HPC).

15.4 Capacity and production process

Newsprint is made from a pulp mixture (called 'furnish') of Chemi-Mechanical pulp (CMP) and Chemical Pulp (CP). The raw material required for the manufacture of CMP is the wood of two varieties of Eucalyptus, the Eucalyptus grandis and the Eucalyptus tereticornis and that for CP reed and bamboo. HNL is credited with using Eucalyptus wood for the first time in India for producing newsprint. In the process of newsprint production, the debarked Eucalyptus wood as well as reed and bamboos are fed into wood and reed chippers separately and then screened to remove dust and over-sized chips. The properly sized Eucalyptus chips are sent to Chemi-mechanical pulp plant (CMPP) for manufacture of CMP. Similarly, reed and bamboo chips are sent to Chemical pulp plant (CPP) for

manufacturing CP. In the pulp plants, the chips are washed, steamed, impregnated with chemicals and passed through three grinding machines called 'Raffinators' and turned into pulp. This pulp or furnish is cleaned, thickened and stored in high density tower for supply to paper machine. The paper machine is fed with furnish of 70 per cent CMP and 30 per cent CP. It is designed for 750 meters per minute speed at a deckle of 685 cm to manufacture 44 to 54 grams per square meter (GSM) newsprint. In the paper machine, paper is first formed as a thin web, which is then pressed, dried, smoothed and finally continuously reeled on large spools. The large reels coming out of the machine have an average width of 6,850 mm and they are slit into standard widths (840 mm, 1680 mm, etc.) and re-wound on paper cores. These reels are then wrapped in craft paper and packed. A flow-chart of the process is indicated in the **Annexure**

The installed capacity for the production of Newsprint is 1,08,005 MT per annum. The company has equipped itself with 100 TPD de-inking plant (2002-03) and Digital Control System for Paper Machine and Pulp-Mill.

15.5 Forest Department

(a) Registers and Books maintained

- Annual Plan for captive plantation and procurement of raw materials
- Tenders and contracts for procurement of raw materials
- Statement containing yield, driage losses, etc.

Forest Department is responsible for procurement of forest raw materials and raising captive plantation of Eucalyptus grandis and reeds.

(b) Audit Checks

- Verify that the Department has drawn up plan for captive plantation as well as procurement of the raw materials and other consumable in accordance with the Annual Plan as well as long term plan of the Company.
- In all procurement from outside agencies, see if the Department invited tenders consisting of standard terms and conditions, indicating the stipulated moisture content.
- Verify system followed for procurement and payment at factory gate, abnormal variations, if any, etc. Specific check as to reasonableness of the price fixed vs. rate charged by Kerala Government shall be carried out.

15.6 Contracts

- Ensure that contract is for a firm price and rates quoted are reasonable and comparable as to the rates accepted during the previous year and if wide variations are noticed, the same has been explained. Also whether the contract envisages levy

- of penalties for short and delayed supplies, supplies with higher moisture content, quantity variations etc.
- In the event of wider fluctuation in prices, see if the company took adequate safeguards \ exercised utmost prudence in protecting its interests.
- are contracts for maintenance of captive plantation entered into after following the due procedure?
- Whether the contract provides for comparison of inputs vs. norms and yield.

15.7 Production Department

(a) Registers \ Books maintained

- Raw material \ Chemical consumption statement
- Monthly production statement
- Machines utilisation statement
- Norms for consumption of steam, water, etc.
- MIS Report
- Down time of machine - statement

(b) Audit Checks to be exercised are

- Consumption of raw materials \ chemicals etc. vs. norms.
- Monthly Production vs budgeted production hours
- Actual vs. budgeted with analysis for abnormal variations, if any. (CMP, CP, Paper Machine etc.) Chipper House, Soda Recovery Evaporator and Turbo Generator.
- Machine utilisation statements and reasons for machines lying idle, if any.
- Consumption of higher steam, water etc. versus norms taking into account the level of operations.
- Comparison of norms of pulp per MT of News prints with actual to arrive at the short fall in production.
- Comparing the ratio of CMP to CP as per design with actual.
- Obtain MIS reports and analyse reasons for wide variations in norms vs. actual.
- Reasons for abnormal downtime of machines – frequent downtime of same machinery.

15.8 Commercial Department

The Commercial Department consists of Purchase, Stores and Distribution sections mainly dealing with planning, organising, procurement and control of all materials including receipt and issue of the materials procured.

A. Purchase

(a) Records \ registers maintained

- Purchase manual

- Purchase order registers
- Tender files
- List of approved suppliers
- Correspondence files relating to selection of tender and award of work

(b) Audit Checks: Ensure

- that proper justification for procurement has been given.
- that procedures laid down in the Purchase Manual have been adhered to
- that purchases have been approved by the competent authority and are within the budgeted provision.
- that comparison statements have been prepared both for technical \ commercial terms and prices. Before preparation of the CST, whether the tenderers are at same level as far as technical specifications \ commercial terms are concerned. If any variation has been found, whether any suitable mechanism for assigning weightage for such variation has been evolved before opening of the price bids.
- After opening the price bids, whether proper weightage(s) have been allocated for deviations \ variations, if any, taken by the bidder, local duties \ taxes vs. import duties, transportation, payment terms etc.
- that contract can be advantageously split to avail of the lower rates and in such cases, whether the company opted for the same or not. If not has the company given any justification and the same are acceptable.
- that company took decision to place the order within the validity period of offer.
- that detailed order has been placed as per the financial bid evaluation statements and the same been accepted by the tenderer.
- that the order contains price escalation clause and if so whether the basis for such escalation has been unambiguously spelt out.
- that terms and conditions of the purchase order contain a provision as to guarantee \ warranty for the performance \ replacement of the damaged parts due to manufacturing defect etc.
- that purchase order contains payment of advance, whether such payments have to be made against Bank Guarantee or any other approved security valid till expiry of the contract.
- that purchase order \ agreement contains Risk Purchase clause, L.D. clause, Arbitration clause, etc.
- that necessity for imported pulp-highlight additional cost due to use of imported pulp.
- that payment of royalty rates and payment made are in order

B. Stores Department

(a) Records \ registers maintained

- (i) Indent register
- (ii) Bin cards
- (iii) Receipt and issue register

- (iv) Priced stores ledger
- (v) Stores inspection notes
- (vi) Register of surplus Non-moving \ slow moving \ obsolete stock
- (vii) Physical verification reports

(b) Audit Checks

- (i) Examine inventory holding of raw material, stores and spares and finished goods with norms.
- (ii) Verify that stock receipt entries are made only after due inspection by competent authority
- (iii) check that minimum, maximum reorder levels are fixed and that proper system \ reports exist to record variations \ analyses reasons therefor.
- (iv) Check if defective \ delayed supplies etc. are brought to the notice of authorities concerned in time for making claims against the agency involved.
- (v) Check system of preparation of periodical statements of obsolete \ non-moving \ slow moving \ surplus stores and initiating action to dispose of these materials
- (vi) check physical verification reports prepared periodically and variation analysis \ abnormal variation in physical stock \ book balance. and comment suitably.
- (vii) Check if company fixes reserve price for disposal of scrap \ obsolete items and that realization is more than the reserve price.

C. Distribution Department

(a) Records \ registers maintained

- Sundry debtors register
- Credit \ debit notes
- Security deposit \ bank guarantee register
- Bill register

(b) Audit Checks

- Analyse the impact of the liberalization policy on the Company.
- Examine the pricing policy and analyse the sale price as fixed by Company vis-à-vis cost of production.
- Check if financial arrangement with the customer is in tune with the declared credit policy of the company.
- Check if credit \ discount allowed has been approved by Competent Authority and that proper mechanism \ system exists to appraise the credit worthiness of the buyer.
- appropriate taxes \ duties have been paid before despatching and the same recorded in all the documents.
- Timely action taken against outstanding and defaulters.

15.9 Personnel and Administrative Department

(a) Records \ registers maintained

- Records on sanctioned strength and men-in-position
- Pay roll
- Overtime register
- Quarters allotment register
- Records relating to collection of rent from quarters \ shops
- Records relating to employment of contract labour and sanction thereof

(b) Audit Checks

- To verify that statutory deductions such as PF, ESI, and Income Tax are effected promptly under the relevant laws \ rules and remitted to the authority concerned in time.
- Check that Overtime (OT) payments are justified and is within the budgeted levels.
- Check allotment register of quarters and verify the reasons for keeping quarters vacant for long periods.
- In respect of quarters \ shops allotted \ occupied by outside agencies, check the agreement entered into to ensure that recovery of rent and other charges are made at correct rates and that no dues exist
- justification for engagement of contract labour.
- Loss of man days due to strike or other reasons to be analyzed for justification

15.10 Finance and Accounts Department

(a) Records \ registers maintained

- Bank reconciliation statement
- Cash \ bank book and vouchers
- Purchase order invoices
- Claim with suppliers, carriers, insurance company etc.
- Loans and advances \ deposits \ BG register

(c) Audit Checks

- Check Bank Reconciliation Statements for clues.
- Check remittance delays in cheques \ DDs, etc.
- Check the arrangement with Banks and verify whether debit \ credit advices received from Banks are properly accounted.
- Check for abnormal delays in raising the invoices and system to fix responsibilities
- Check purchase invoices with terms and conditions of Purchase Order.
- To check penalty levied and recovered

- Check if claims are preferred in time for short supplies \ rejections \ shortage in transit, and follow up with suppliers, carriers, insurance company etc. till recovery
- check if demurrage \ penalty etc. paid could have been avoided by better management of available resources

15.11 Functional Areas and Periodicity

Functional Areas-	Periodicity
Project & Engineering-	Annual
Purchases, Raw Materials-	Annual
Sales, Finance and Accounts-	Annual
Production Planning-	Annual
Accounts-	Annual

CHAPTER 16

MADRAS FERTILIZERS LIMITED

16.1 Introduction:

Madras Fertilizers Limited, Manali, Chennai was incorporated under the Companies Act, 1956 on 8th December 1966.

The Company started commercial production of Ammonia, Urea & NPK Fertilizers (NPK) in November 1971. The raw materials are naphtha and potash urea. The Company processes both indigenous and imported raw materials for fertilizers and agro chemicals. Naphtha is received through pipe line from Chennai Petroleum Corporation Limited. For bio fertilizers, raw materials processed are basically lignite and calcium chloride. The Company imports phosphoric acid, potash urea and ammonium sulphate.

The Company revamped its plant in 1993. Company sells its products under a brand name “VIJAY”. In addition to production of Chemical Fertilizers such as Urea & NPK fertilizers, the Company also engages in the production of Biofertilisers on a small scale and in trading activity of Imported Muriate of Potash (MOP), Di Ammonium Phosphate (DAP) and Agro Chemicals. The Company also sells Carbon-di-oxide, which is a by-product in Ammonia Plant.

16.2 Objectives

- To manufacture, produce, formulate, mix or prepare and deal with import and export in all classes and kinds of fertilizers, manures, agricultural chemicals, industrial petrochemicals, formulations, derivatives, chemicals of all classes.
- To adopt and carry into effect the agreement with promoters titled Fertilizer Formulation Agreement dated 14 May 1966 including any modification thereto.
- To carry into effect the Technical Assistance Agreement between the promoters and to adhere to the agreement for the sale of Company’s product to the Government of India.

16.3 Capital Structure

The authorized and paid-up capital of the company are Rs. 365.00 and Rs.162.14 crore respectively. The share holding pattern as of 31.03.2011 is as follows:

Government of India-	59.50 %	Rs.96.47 crore
NIOC	25.77 %	Rs.41.79 crore
Public-	<u>14.73 %</u>	Rs.23.88 crore
	<u>100.00 %</u>	

16.4 Organisation setup

The Company is managed by a Board of Directors comprising 8 Directors representing Government of India (3), NIOC (3) and IDBI Nominee Director (1) in addition to the Chairman and Managing Director. The Chairman and Managing Director (CMD) is the only functional Director in the Board and is assisted by Group Heads in the level of Executive Directors heading Marketing, Personnel & Administration besides General Manager (Finance & Accounts) General Manager (Plant) and Chief Vigilance Officer.

16.5 Information Technology

The MIS department in MFL is headed by a Chief Manager. Web based applications use Oracle 9i on the Back end and Developer 2000 on the Front end. The Company has 3 tier architecture with a unix based database in SunSolaris server. The application is window based in Intel server and the client is Web based. The Company is in the process of integrating all the departments and all the Regional offices. The infrastructure need for this “Online Integrated System” is being put in place. Initially Payroll is to be integrated online after which all the Regional offices are to be covered.

16.6. Production and Other Departments

1. Production

Registers \ Records maintained

- Log sheet of each plant
- Daily production Register \ Statement
- Monthly production statement
- Register showing consumption of raw materials and operating supplies
- Statement of Down-time analysis
- Laboratory reports
- Register of spares etc.

Audit Checks

- Verify down time analysis of plants and analyse reasons for down time and see if the same was avoidable.
- Verify if design capacity, capacity utilization and output quantity, are as projected at the time of procurement and evaluate reasons for adverse various.
- Scrutinize planned plant maintenance schedule and compare with actual maintenance. Check the compliance of statutory regulations and reasons for abnormal variations
- Verify whether there is any bottleneck in bagging and shipping plant.

- excess consumption of raw materials \ utilities like power, fuel & water
- Verify maintenance expenses and compare with norms and budgets.
- analyse breakdown & frequency of machinery breakdowns –effect on production -
- Scrutiny of civil & mechanical contracts works in production department – Check the levy \ recovery of liquidated damages, if any.
- Review of Daily Production Report (DPR) & Monthly Reports
- Input \ output ratio on naphtha to be analyzed
- Expenses on R&D to be checked
- Cost reduction measures to be checked & effectiveness ensured
- Check adequacy of insurance coverage for plant and machinery, loss of profit etc. whether claims are lodged in time \ pursued etc.

2. Purchases

Records \ Registers maintained

- Purchase order register
- Purchase order \ work order files
- Tender files, Comparative statements etc.
- Correspondence files relating to purchases made.

Audit Checks

- Justification, economy and efficiency of Purchases be analyzed
- Tendering procedures to be scrutinized for adherence to CVC guidelines and standards
- Review of Technical & Commercial bids
- Indenting procedures to be checked
- Unnecessary stocking up of materials to be checked
- Payment terms & availability of credit to be checked
- Co-ordination between purchases & various indenting units to be checked to ensure availability of materials on time
- Delays resulting in stoppage \ loss of production to be identified

3. Stores

Records \ Registers maintained

- Indent Register
- Bin cards
- Inventory register
- Priced Stores Ledger
- Store inspection notes

- Stores issued \ returned summary register
- Stores received \ issued \ returned \ categorized summarized register.
- Register of surplus stores

Audit Checks

- Examine inventory holding of raw material, stores and spares and finished goods with norms.
- Verify that stock receipt entries are made only after due inspection by competent authority
- check that minimum, maximum reorder levels are fixed and that proper system \ reports exist to record variations \ analyses reasons therefor.
- Check if defective \ delayed supplies etc. are brought to the notice of authorities concerned in time for making claims against the agency involved.
- Check system of preparation of periodical statements of obsolete \ non-moving \ slow moving \ surplus stores and initiating action to dispose of these materials
- check physical verification reports prepared periodically and variation analysis \ abnormal variation in physical stock \ book balance. and comment suitably.
- Check if company fixes reserve price for disposal of scrap \ obsolete items and that realization is more than the reserve price.

4. Finance & Accounts

Records \ Registers maintained

- Bank reconciliation statement
- Cash imprest account
- Cash \ bank book with vouchers
- Sundry debtors \ creditors ledger
- Payroll\ ESI Registers
- Central Excise return customs files
- Income tax \ sales files
- Internal Audit reports
- Subsidy claims register

Audit Checks

- Bank Reconciliation Statement analyzed for clues
- Cash credit limits, overdrawal, interest, penal charges to be checked
- Funds management (payment of penal interest) to be thoroughly checked
- Performance of internal audit - Efficient, Effectiveness and adequacy to be checked
- Payment of statutory dues, PF, ESI etc. to be checked.
- Payment of Taxes-Excise, customs, Sales tax, Income Tax to be checked
- Correspondence with Ministry for subsidy claims & receipt of the same

- Co-ordination with FICC receipts of claims on PCS & Urea subsidy to be checked
- Repayment of dues on loans, deposits etc. to be checked
- Investments made & returns to be compared
- Dishonour of cheques presented by the parties to be analysed.
- Review of shipment of files for imported items.
- Overdraft interest vis-a-vis penalty paid on delayed EB payments to be analyzed

5. Marketing

Records \ Registers maintained

- Sundry Debtors files
- Distributors' files
- Credit \ Debit notes
- Security Deposit \ Bank Guarantee registers
- Bills Register
- Dealership's agreements
- Godown Register
- Outstanding \ overdue register

Audit Checks

- Review of Sundry Debtors files and age wise analysis of debtors.
- Review of Distributors files.
- Issue of Credit \ Debit notes to debtors
- Administration expenses in Marketing units & Regional Offices to be checked
- Receipt of Security Deposit \ Bank Guarantee from customers
- Supplies made to defaulters to be followed up
- Action initiated against defaulters to be checked
- Credit periods to be reviewed
- Discounts, incentive payments – to be reviewed

6. Works & Contracts

Audit Checks

- Check whether the contract has been finalised by following the procedures as laid down in Manual on Contracting System and concurrence of finance obtained
- Check whether it has been ensured that the quantities executed do not exceed the estimate as per Work Order and if there is excess, whether the same has proper approval and reasoning
- Verify whether bills submitted by the contractors are verified with measurement books and applicable taxes recovered
- Verify whether within 15 days of completion of contract, the contractor has obtained Certificate of Completion of contract.

- Check where materials are supplied by department, requisite recoveries are effected from contractors bills
- Ensures that escalations claimed are as per the contractual terms
- Check whether the expenditure is properly accounted distinguishing between capital and revenue and capitalization is made based on the certification from Engineering Department.

7. Personnel & Administration

Audit Checks

- Payment of overtime wages to be analyzed
- VRS ex-gratia paid to employees to be checked with reference to DPE guidelines \ Board guidelines.
- Correspondence with Ministry on VRS payments and receipt of grant for the same
- Payment of allowances to employees to be checked and unjustified claims \ payments to be identified
- Contracts with transporters \ caterers to be checked for terms and conditions
- Vigilance cases to be checked and action taken to be ensured
- Fixation of pay on wage revision to be checked

8. Energy Audit

- Ascertain whether Energy Audit was conducted and deficiencies highlighted in report rectified.
- Check whether the energy consumption per tonne of production is as per the norms fixed.

9. Environment Audit

- Check whether there is a proper Effluent Treatment System, system of recycling the treated effluents.
- Check whether the Pollution Control Board norms are duly complied with.

16.7 Functional Areas and Periodicity

Functional Areas-	Periodicity
Production, Technical Services, Maintenance, Material Management and Inventory Control-	Annual
Marketing Services and Sales Units at Tamil Nadu, Pondicherry, Andhra Pradesh, Kerala and Karnataka-	Annual
Commercial - Sales and Procurement-	Annual
Contracts including projects-	Annual
Finance & Accounts and Personnel & Administration-	Annual
Accounts Audit-	Annual

CHAPTER 17

THE FERTILIZERS AND CHEMICALS TRAVANCORE LIMITED

17.1 Introduction

The Fertilizers and Chemicals Travancore Limited (FACT) was incorporated on 22nd September 1943 as a Public Limited Company and became Government Company in July 1963, when the Government of India subscribed Rs.3.5 crore to a fresh issue of shares for the 2nd stage of expansion, acquiring a major interest (50.3%) in the Company.

The Company has seven main divisions with three production units, comprising, Udyogamandal Division, Cochin Division and Petro Chemicals Division, two consultancy and engineering units comprising of FACT Engineering and Design Organization (FEDO) and FACT Engineering Works (FEW) besides Marketing Division and Head Office including Corporate Office.

Udyogamandal Division produces Ammonia, Sulphuric acid, Phosphoric acid, Ammonium Sulphate and Factomfos 20:20. The Cochin division manufactures Ammonia, Sulphuric acid, Phosphoric acid, Urea, Complex fertilizers of Di-Ammonium Phosphate and Factomfos 20:20. The main products of Petrochemical Division are Nylon 6, Caprolactum, Nitric Acid and Soda Ash. The two consultancy and engineering units FEDO and FEW undertake consultancy works, fabrication and project works on turn-key basis respectively. The Marketing Division of the Company supervises, controls the trading activities of the Company in the distribution of fertilizers and chemicals. It has under its control several mixing centers in the States of Kerala and Tamil Nadu for preparation and sales of mixtures of fertilizers. The Head Office looks after administration, personnel and finance functions of the Company. The Corporate Office deals with policy decisions and overall supervision of work of Head Office and other units. Apart from the above mentioned units, the Company has a Shipping Office at Wellington Island to carry out loading and unloading operations at the Port.

17.2 Objectives

The main objectives are:

- To be of service to the nation and to contribute effectively to its economic well being and growth through the production \ marketing of fertilizers and chemicals and through

the acquisition \ development and discrimination of engineering and technological know-how and skills.

- To sustain and improve its pioneering role and standing in the field of fertilizer production and marketing and in the fostering of indigenous engineering and technology through research and development.
- To improve productivity, optimize production and yields from input resources, maintain high standards of quality and adopt effective measures for controlling costs and minimizing dependence on imports.

17.3 Capital Structure

The authorized capital of the Company is Rs.1,000 crore divided into 100 crore equity shares of Rs.10 each. Paid up capital of the Company was Rs.647.07 crore as on 31st March, 2011.

17.4 Organizational set-up

The Company is headed by the Chairman and Managing Director, who is assisted by Director (Finance), Director (Technical), Director (Marketing) and Chief Vigilance Officer.

17.5 Departments under production units

The various departments under production units are following:

- Manufacturing Unit
- Raw Materials \ Purchases
- Product handling \ traffic
- Projects
- Engineering, Mechanical and Civil
- Stores
- Workshop
- Instrumentation
- Utilities
- Finance including costing
- Technical services
- Personnel and administration
- Pollution control
- Welfare
- Township including civil maintenance

(i) Production

Books and Registers maintained

- Daily \ monthly production and Performance Review Reports
- Register of issues \ receipts for raw material
- Register showing consumption of raw material
- Statement of downtime analysis

Audit Checks

Production

- Analyse the actual production with designed capacity and budgeted production to attempt a variance analysis and assess capacity utilisation.
- Review the working of instrumentation system and the method of ascertaining the quantum of output.
- Verify whether there is any bottleneck in bagging and shipping plant.
- Consumption of raw materials and utilities like power, fuel & water. Comparison with norms & reasons for excess consumption
- Verify maintenance expenses and compare with norms and budgets.
- Breakdown of machinery & frequency of breakdowns and remedial measures taken
- Scrutiny of the contracts for civil & mechanical works in production department – Check the completion schedule, payment of liquidated damages, if any.
- Check actual consumption of stores and spares data from monthly production reports and how the inputs are recorded for consumption and point out the deficiencies, if any
- Input \ output ratio on naphtha to be analysed
- Expenses on R&D with reference to outcome
- Cost reduction measures to be checked & effectiveness ensured
- Check adequacy of plant insurance \ loss of profit etc. with reference to settlement of claims etc

Consumption

- Analyse the actual consumption with designed capacity and budgeted consumption to attempt a variance analysis.
- Review the working of the instruments in the plant for recording inputs and other consumables.
- Compare the actual consumption with the design \ budgeted and ascertain the reasons for variation.

Shutdown Analysis

- Review the downtime analysis with the data from the Detailed Project Reports.
- examine nature \ frequency of such shutdowns and effect on production costs
- Analyse the controllable \ uncontrollable nature of shutdowns.

(ii) Purchase Department

Books and Registers maintained

- Delegation of powers, company`s policy
- Suppliers empanelment register
- List of orders issued \ suppliers performance data
- Purchase orders

Audit Checks

- Examine whether prescribed purchase procedures are adhered to and are made as per the delegated financial powers.
- Scrutinize tender procedure, evaluation of bids and award of work.
- Verify whether discounts are availed wherever possible.
- Review the internal control procedure for purchase of stores, raw materials etc.

(iii) Projects

Audit Checks

- Review procedure for land acquisition, shortfall, compensation claims pending in courts and delay occurred in implementing the project due to land acquisition delays
- Review justifications for expansion \ new projects and projected outputs \ incomes
- Review machinery \ equipment contracts and their timely\ executions \ commissioning including outputs projects with actual output
- Review expenditure incurred for new schemes and whether the schemes are progressing according to schedule.
- Review the basis for allocating common expenses between construction and production.

(iv) Stores Department

Books and Registers maintained

- Register for receipts \ issues of stores
- Cardex for individual items
- Priced Stores Ledger

- Register for surplus stores, non-moving \ slow moving and obsolete items

Audit Checks

- Check the procedure for receiving, recording, inspection, stocking and issue of materials from and into stores.
- Check the procedure and frequency of physical verification of stores.
- Check whether bin cards are maintained up-to-date and the fixation of inventory recording levels.
- Review ABC classification of inventories and non-moving \ slow moving stores.
- Check whether the materials despatched from the Company reached the destination.
- Check for shortages and insurance claims with transporters.

(v) Instrumentation

Audit Checks

- Review the methods of ascertaining \ calculating inputs \ outputs.
- Examine the method of recording data with stress on reconciliation of data at supplying and receiving points.

(vi) Workshop

Books and Registers maintained

- Work order register
- Material supplies and cost recovery
- Completion Report file
- Monthly man-power statement
- Overtime register
- Contract job register
- Machine-wise logbooks

Audit Checks

- Review utilisation of man-power, materials, and equipments and logbooks
- Review private job \ contract job orders and see that the expenditure incurred is fully recovered with overheads
- Review overtime payment register to check whether payments are justified and as per the norms fixed.

(vii) Finance Department

Registers maintained

- Cash and Bank vouchers, Bank Reconciliation Statement and interest account
- Pay roll

- Income Tax, Sales Tax assessment register
- Budgetary control register
- Cost sheet
- RG 23A register of inputs for MODVAT benefit claimed, gate passes, returns on use of raw material and goods manufactured
- Fixed assets register
- TA, LTC, Medical Bills, Festival Advance, Motor Car \ Cycle \ Scooter Advance with sanctions, agreement, surety bonds etc.

Audit Checks

- Verify total budget sanction with item wise actual expenditure-analyse adverse variations
- Examine whether payments to suppliers are settled as per Purchase Order \ Work Order conditions and necessary records are maintained.
- Check all bills are paid in accordance with measurement books and rates agreed to
- Check if all duties taxes and other statutory liabilities are deducted and remitted in time
- Review cash \ bank receipts and payments.
- Verify all accounts and advances with relevant vouchers.

16.6 Shipping office

Books and Registers maintained

- Bulk shipment register
- Shipment files in respect of imported spares and raw materials
- Claims register - Customs, Port Trust, Railways and Transport agencies

Audit Checks

- Verify whether imprest account is properly maintained, sanction obtained and nature of expenses incurred etc.
- Verify whether Customs Duty paid is correct.
- Review shipment files in respect of Rock Sulphur, Ammonia and Phosphoric Acid with regard to despatch money earned and demurrage incurred.
- Review claims Register, stevedoring contracts and Ship Unloading System.
- Review shipment files in respect of imported spares \ raw materials.
- Verify if claims are lodged on appropriate authorities for shortages \ damages or other reasons within the time schedule available

16.7 Consultancy and Engineering Units

Books and Registers maintained

- Monthly progress report
- Work order \ job order register
- Register of enquiries \ quotation submitted

- Statement showing man hour utilisation of both Engineers and Draftsman and under utilisation of man hours

Audit Checks

- Ascertain whether the job is undertaken on turnkey basis and the quantum of profit \ loss anticipated.
- Peruse the contract \ agreement \ purchase order and check for provision or omission of major clauses.
- Compare man-hour utilisation on jobs undertaken with budget.
- Check that in all job orders undertaken total cost recovered includes an element of profit apart from recovering all overheads

17.8 Marketing Division

Books and Registers maintained

- Invoice \ cash bills on sale of fertilizers \ chemicals
- Records showing correspondence with Railways \ Transport contractors
- Delivery order
- Godown, occupancy register

Audit Checks

- Verify the standard invoicing \ billing procedure.
- Check rates of invoices \ bills and extension of rebates \ commission \ discount.
- Examine sales contract \ agreement with distributors for C & F, for hiring godowns, transportation of products, etc.
- Verify daily cash collections and remittances to bank from Regional Offices.
- Review credit limits of parties and dues recoverable \ bad debts with regard to extension of additional rebates, furnishing of Bank Guarantees \ Securities etc.
- Examine cases of suits filed and their status.
- Examine physical verification of stock, issue of stock with delivery orders, invoices, cash bills, transfer advices, stock register etc. and the procedure for receipt \ issue of stock.
- Check whether dealer margin allowed are as per FICC norms.
- Check long term agreements with various customers and the sales policies.
- Review correspondence files on transportation, missing wagons, pipeline supply price; materials billed but not moved, Railway Receipt \ shortages etc.

17.9 Audit checks at Head Office

- Verify Suspense Account, TA \ LTC \ Festival Advances with sanction, surety bonds with loan register, etc.
- Verify bank receipts and payments with credit \ debit advices, vouchers, BRS etc.

- Verify accuracy of interest charged by bank on Cash Credit account, commitment charges paid to bank, interest paid on loans from banks \ Govt. of India \ FIs, etc., on ways and means advances, working capital, etc.
- Examine cases of guarantees and counter guarantees, their validity and revalidation.
- Review of Agenda, Minutes of Meeting of Board of Directors, MIS, Internal Audit Reports and compliance reports etc.
- Review of Monthly Reports sent to Ministry.
- Check the adequacy and effectiveness of system and procedure followed and their purpose.

17.10 Audit checks at Service Departments

(i) Hospitals

- Examine purchase bills for accuracy and sanctity.
- Check procedure for issue of medicines from Main Stores to sub-stores and wards.
- Verify Register of X-Rays taken and trace advices for recovery from non-entitled persons.
- Check for entitlements for treatments and control mechanism, records maintenance.

(ii) Schools

- Check collection of fees and purchases of items
- Check utilization of concessions \ grants in aid if any received.

(iii) Guest Houses

- Verify Visitors' register and its updation and reconciliation.
- Check purchase of consumables and examine recovery of boarding charges vis-à-vis expenditure thereon.
- Review physical verification of assets and lease agreements relating to immovable property.

(iv) Canteens

- Check purchase with suppliers' bills and preparations with the standard norms along with consumption of various commodities.
- Check counterfoils of coupons with daily receipts and accounting of collections.
- Check vouchers for expenses and register of daily purchase, issues and stock.

(v) Computer Services Centre

Check machine utilisation and internal controls over inputs, process and output sand AMCs.

(vi) Estate

- Verify collection of rent receivable, agreements with tenants and their renewal on expiry.

- Examine the system for allotment of quarters and see that they are not lying vacant for long duration without justifiable reasons.
- verify steps taken on preventive maintenance, repairs and renewals, upkeep etc

17.11 Audit

The broad functional areas covered by the IT application in the Company include Pay Roll, Finance, Personnel, Maintenance, Materials, Production, Marketing and Sales. The description of the system is given below function-wise:

Function	System Architecture	Operating System(s)	DBMS \ RDBMS	Programming Language	System Development	Operational From	Investment (Rs \ lakh)
Pay Roll	Mini Computer based	Digital UNIX	Open Ingres	C, Ingres	In-house	1996	73.50
MIS	PC Based	MS DOS	-	COBOL	”	1989	2300
OIIS (Finance, Personnel, Marketing, Production, Maintenance)	Client, Server System	Sun Solaris	Oracle 8i	Developer 2000	Outsource (TCS)	2001	202.50 (Implementation stage)

The Computer Services Centre, Head Office co-ordinates the computer related activities of all Divisions. The main Alpha Server of Head Office is used for the centralized processing jobs like Pay Roll, Financial Accounting, and Human Resources etc. The production divisions have identical DRS-6000 Server with terminals \ PCs in various departments for online applications. Specialized application packages are in use for Civil, Mechanical, Electrical, Instrumentation, Piping and Process design in FEDO. All the regional and area offices of Marketing Division are also computerized with software for invoicing, bills and MIS. The entire network form part of FACTNET, a TCP \ IP based in house network through leased lines and dial up lines. Besides, all Divisions have dial-up connectivity to Internet and a Website has been launched for providing information on FEDO operations.

The scope of Audit of IT systems in the company relate to gathering broad parameters regarding the IT application and development through survey questionnaire, evaluation of development of IT systems, studying and evaluation of controls built in the system, procurement of IT systems and their performance by using Computer Aided Audit Techniques (CAATs). Special emphasis is laid on the hardware and software environment, IT Strategy, Security Policy, Backup, Document Retention and Disaster Recovery Plan.

17.12 Functional Areas and Periodicity

Functional Areas-	Periodicity
Udyogamandal Division-	Annual
Marketing Head Office, Udyogamandal and marketing offices at Kerala, Karnataka, Tamil Nadu and Andhra Pradesh-	Annual
FEDO, Udyogamandal-	Annual
Cochin Division, Kochi including Shipping Office, Wellington-Head Office, Udyogamandal including Shipping Office (Corporate Materials)-	Annual
FEW, Palluruthy-	Annual
Petro Chemical Division, Udyogamandal-	Annual
Udyogamandal - Accounts Audit-	Annual
Marketing HO, Udyogamandal - Accounts Audit-	Annual
Cochin Division, Kochi - Accounts Audit-	Annual
FEDO, Udyogamandal - Accounts Audit-	Annual
Head Office, Udyogamandal - Accounts Audit-	Annual
Petro Chemical Division, Udyogamandal - Accounts Audit-	Annual
FEW, Palluruthy - Accounts Audit-	Annual

CHAPTER 18

HINDUSTAN PHOTO FILMS MFG. CO LIMITED

18.1 Introduction

Hindustan Photo Film Manufacturing Company Limited, Udhamandalam was incorporated on 30th November 1960 as a wholly owned Government of India Company with the object of attaining self-sufficiency in the manufacture of photographic products. The Company has Plant at Ambattur, Chennai for conversion of wide stock film (Jumbos) imported from foreign countries. The Ambattur plant has also facility for the manufacture of processing chemicals for Medical X-ray and Graphic Arts Films. In keeping with the developments in technology, the company has commissioned a new state-of-the-art Polyester X-ray Plant in 1997 for the manufacture of X-ray and Graphic Arts films with Polyester base.

18.2 Objectives

(i) The main objects are:

- (a) Manufacture, production and preparation of sensitized photographic and cinematographic materials and other materials sensitized to light, heat, X-rays and other forms of radiation, radiant matter, energy, pressure, electricity and magnetism.
- (b) Manufacture and preparation of plastic films, paper glass and other forms of support for such sensitized materials and products.
- (c) Manufacture, preparation and purification of chemicals and chemical products including raw materials and chemicals that could be used in the manufacture of sensitized materials or in their utilization.

(ii) The following are the products manufactured

Unit	Products
1	Cine positive B&W, Cine Sound negative, CTA based Medical X-ray, Black & White Roll film and Paper(s), Color Paper and other Medical imaging films at Ooty
2	Cine Color Positive, Color Paper, Graphic Arts Films, Processing Chemicals, Medical \ Industrial X-ray Films at Ambattur, Chennai
3	Medical X-ray, Graphic Arts Films, Industrial X-ray and Specialty Films, at Ooty.

18.3 Organizational Set Up

The Company is headed by a Chairman and Managing Director and has a Director (Finance) functioning as the Executive head. The major functional divisions are viz. Production and Marketing, Personnel, Finance, Engineering, Corporate Planning. Functional divisions are generally headed by General Managers.

The following departments are under the direct charge of the CMD

- Technical Cell
- Secretary
- Finance
- Central Excise
- Medical
- PRO
- Civil
- R & D, Vigilance
- Purchases
- MCO

The Production Division has the following departments under its wing:

- Silver Nitrate Plant
- Product Planning
- Magnetic Tape & ID Card, Photo me
- Film Base
- Coating
- Conversion
- Emulsion
- Quality Control

The Personnel Division has Computer, legal and Personnel departments each headed by a Manager.

The Finance Division has a Manager (Finance), Deputy Manager (Internal Audit), Assistant Managers \ General Finance, Establishment \ Bills, Costing and Concurrence.

Engineering Services has Mechanical Maintenance (2 Depts.) Electrical, Utility, Engineering and planning (2 depts.), Instrumentation and Control (I &C) wings.

The Marketing Division has 4 Regional Offices at Chennai, Mumbai, Kolkata and Delhi headed by Regional Managers except at Chennai, which is under DGM, Marketing. Besides there is a Market Co-ordination department at Ooty headed by a Manager. The Company has 16 Branch Offices headed by Branch Manager \ AM \ SO according to the Sales potential of the Branch.

18.4 Research and Development

Hindustan Photo Films (HPF) has a Research & Development Centre with Scientists and Engineers who are involved in continuous product improvement and new product development programmes.

18.5 Marketing

The products of HPF are marketed under the brand name “INDU”. The Marketing Network of the Company is spread all over the country with 16 branches which include 4 Regional Offices located at Chennai, Mumbai, Delhi and Kolkata.

18.6 Capital Structure (as on 31st March 2011)

Authorized Capital and Paid up Share Capital of the company as on 31.3.2011 are Rs.210.00 crore and Rs.206.87 crore respectively

18.7 Computer (EDP) Department

Until the year 1998 the Computer Department had been carrying out data entry offline using COBOL \ UNIX Operating system. After 1998 new computers with new custom developed packages for Financial Accounting, Inventory Control, Payroll processing and Human Resources Development has been installed under Windows NT server connecting various departments.

18.8

(a) General records \ registers maintained

- Sales invoices from all regions
- Debit \ credit notes
- Purchase order register
- Records relating to raw materials, chemicals and packing material
- Quality control material
- Records relating to disposal defective material
- Monthly production statements
- Input \ output statement
- Rejection level statement
- Downtime analysis
- Consumption of raw materials and operating supplies
- List of non-moving \ obsolete items
- Job order contracts

(b) Audit Checks

- Check whether Sales figures of the Regional offices are supported by Invoices.
- ensure all credit notes for the return of the materials by the customers are issued only after approval of delegated Authority.
- Ensure that all purchases viz. Silver, Raw materials (Poly Base) Chemicals, packing materials etc involving high value are reviewed thoroughly.
- Check from Reports of the Quality assurance Section that materials supplied correspond with the samples already approved.
- Check records relating to disposal of defective input materials supplied by the supplier \ follow up action with the supplier.
- Check production Records and analyze rejection levels and input \ output ratios.
- Similarly check whether the process loss in respect of processing units such as Silver Recovery plant, Film Scrap recovery Plant, Silver Nitrate Plant are within the norms prescribed.
- Check records on waste arising out of rejections and the extent of silver recovered therefrom with norms
- Check records \ Reports on non-moving, obsolete, damaged, maximum and minimum levels and those relating to disposal of obsolete stock.
- Ensure that all job order contracts result in adequate margin to the company
- Check that separate accounts are maintained for the Company's own \ Job order production, inventory etc.

(c) Work Orders \ Contracts

- Whether tendering procedure viz. (limited tender, single party tender, nomination, global tender etc.) is as per the policy laid out in Delegation of Authority.
- In case of press tenders, whether the Notice Inviting Tenders (NIT) specifies the details like estimated cost, details of work to be done etc.
- Where work order is placed on other than L1, ensure proper justification is recorded and proper authorisation as per Delegation of Authority obtained.
- Where rates quoted by L1 vendor are abnormally high compared to in-house estimate, whether proper negotiation was made so as to obtain the best possible price.
- Ensure that a system of blacklisting contractors for poor performance exists
- Whether approval from the competent authority was obtained in case of extension of work, delay in completion, additional quantities, increase in the scope of work etc.
- Whether Bank Guarantee is obtained from the contractor for advance payments made.
- Whether Performance Bank Guarantee is obtained before certification of the final running account bill.
- Whether the requirement of extra materials (items not forming part of the contract) are analysed for their necessity certified by the competent authority.
- Ensure that a system exists to check all running account bill with measurement books before competent authority approves for payment.

- Ensure that a system is in place to ensure that necessary deductions (delay in execution, non-submission of Cenvat documents, Security Deposit, Chargeable materials, non-submission of PF & ESI challans etc.) are intimated to Project Finance so as to deduct the same from the work bills.

18.9 Functional Areas and Periodicity

Functional Areas-

Periodicity

Production, Engineering, Stores, Projects and Contracts-
 Finance & Accounts and Personnel & Administration-
 Marketing including related contracts-
 Chennai – Marketing-
 Chennai - Ambattur conversion plant-
 Ooty - Accounts Audit-

Annual

CHAPTER 19

SETHUSAMUDRAM CORPORATION LIMITED

19.1. Introduction

Sethusamudram Corporation Ltd was incorporated on Sixth day of December 2004 under the Companies Act, 1956 with the main object of commercial exploitation of Sethusamudram Channel connecting Gulf of Mannar with Palk Bay along the Indian territorial waters, maintenance and operation of the navigation system to reduce the cost as well as voyage time to reach the Indian Ocean. The certificate of commencement of business was issued on 27th April 2005. The Company is under construction and commercial operations as per DPR were to be from January 2009. The Tuticorin port is the nodal agency for providing technical advice for implementation of the project. Sethusamudram Channel project at a total cost of Rs.2427.40 crore was inaugurated by the Prime Minister of India on 2nd July 2005. Dredging is the major component of the project accounting for about two third of the project cost. The total length of the channel is 167 kms. Dredging is required for a length of 89 kms in two stretches viz. Adam's Bridge and Palk Strait involving a total quantity of 82.5 million cum. The designed depth of the channel is 12 km below chart datum. As per the orders of the Government of India (GOI) the entire dredging works had been entrusted to M \ s Dredging Corporation of India, a Government of India undertaking.

Current status of the project: As per the pre-dredging and interim survey conducted during September 2009 in Palk Strait \ Palk Bay area, out of total estimated quantity of 33.80 M.cum of dredging about 18.90 Mcum of dredging was completed. Pending a final on alternative alignment, DCI has withdrawn all the dredgers since 27.7.2009.

Dredging work at Adam's Bridge commenced on 11.12.2006 but suspended since 17.9.2007 consequent to an interim stay by the Supreme Court and upto that out of 48.05 M Cum of dredging about 9.52 M cum. Of dredging was completed.

National Institute of Oceanography, was appointed by GOI as per the advice of Supreme Court, to study the impact of EIA submitted its draft final report on 30.6.2011 and is under examination by Expert Committee.

^ Pilot launches and 8 Mooring launches procured from Dempo Shipbuilding are being disposed off since the channel was not ready for deploying them, consequent to the stay by Supreme Court for the project.

19.2 Objective

The main objectives are to design, develop, establish, operate as well as to maintain a navigation channel along the territorial waters of India for connecting Gulf of Mannar with the Palk Bay named as Sethusamudram channel to facilitate movement of all types of vessels, ship boats, crafts, barges carrying passengers or goods etc within and outside territorial waters of India and to save the voyage time and costs.

19.3 Capital structure

The Authorised capital of the company is Rs.1000 crore divided into 100 crore equity shares of Rs.10 each. As on 31 March 2011, the paid up capital of the company was Rs.745 crore which included an amount of Rs.5.50 crore received towards equity share capital pending allotment of shares.

19.4 Organizational set up

The company is managed by the Chairman-cum-Managing Director with guidance of Board of Directors comprising Chairman from the participating Major ports and Chairman-cum-Managing Directors of participating PSUs on ex-officio basis and nominees from the Ministry of Shipping, representing GOI. The Directors are not liable to retire by rotation.

The Chairman-cum-Managing Director is assisted by General Manager (Project) and General Manager (Finance). General Manager (Project), discharging technical activity of the company, is being assisted by the following officers \ staff.

- Superintendent Engineer (Dredging) placed at Rameswaram to look after the Dredging operations with the assistance of Executive Engineer and Asst. Engineers.
- Superintendent Engineer (Headquarters) is preparing and finalizing estimates, inviting tenders and finalization of contracts with the assistance of Asst. Engineers.
- Superintendent Engineer (Hqrs.) (Mechanical) is assessing the requirement of project materials, inviting tenders and placing of purchase orders and procurement etc with minimal supporting staff.

General Manager (Finance) carries out Administration and Finance functions of the company and is assisted by (i) Company Secretary and Dy. General Manager (Finance) (ii) Asst. Manager (Finance) (iii) Accounts Officer and (iv) supporting staff. The company is observing the rules and regulations as applicable to major ports in the country in discharging its functions.

19.5 Risk areas

- Environmentalists fear that there are two ways in which the plying of ships could endanger the ecology. Dredged spoil dumped in the vicinity of the islands could cause mass, suspended sedimentation. The canal would cause a change in the magnitude and direction of currents in the Gulf of Mannar because it will be 300 meters wide, and the changed currents will flow towards the 21 islands.
- There is apprehension that hard strata will be encountered in the Palk Bay \ Palk Strait area and “if the bottom strata turn out to be rock... blasting might be required “. If the hard rock is blasted, the shock waves will kill the entire fish population in the area. The fish eggs \ seedlings too will be killed.
- The coral reefs are the seat of biological diversity. By destroying them, hundreds of species of marine animals will be killed.
- Since an alternative alignment including a canal cutting through the portion between Dhanuskodi and land end on Rameswaram Island, has to be found out as per Supreme Court orders, there is a possibility of delay in implementation of project which tell upon time and cost overrun.

19.6 Records \ Registers maintained

1. Accounts Administration

- Coastal community Development Programme Payment Register
- Investment Register
- Cash imprest account
- Cash \ Bank book with vouchers
- Bank Remittance statement

- Voyage Register
- Bills Register (DCI)
- Fixed Assets Register

Operations Department

- SSCP cell Agreement Register
- Quotation Register
- Bank Guarantee Register
- Estimate Register
- Tender document issue and
- Quotation Receipts and open register

2. Administration

- Salary Bill Register
- Leave & OT Registers
- Loans & Advances
- Medical Claim Register
- Newspaper reimbursement Register
- Incumbent and file register
- Stamp Accounts Register
- Pay fixation.

AUDIT CHECKS

1. Accounts and Administration

- Ensure that bank reconciliation statements are upto date and there are no unrecognised items.
- Check that all expenses incurred upto the completion of the project are capitalised.
- Ensure that service tax paid as input cen vat credit is utilised for the payment of service tax payable on output.
- Review cash \ bank receipts and payments
- Verify budget sanction for each item of expense
- Funds Management (investment) to be thoroughly checked.

- Ensure that expenditure on CCDP has been incurred as per GOI directions
- Check the additions to fixed assets with purchase invoices & payment vouchers \ capitalisation of expenses.

2. Operations Department

- Review delegation of powers for works contracts
- Ensure that tender procedure prescribed is adhered to
- Ensure that works orders are issued in accordance with the terms and conditions finalised by the Company
- Ensure that lowest possible quotation is accepted, if not, adequate reasons recorded
- Ensure that proper estimates are prepared for high value contracts
- Check that proper agreement is entered into before the work is executed
- Check that bank guarantees are obtained as per the tender conditions

3. Administration

- Ascertain whether the disbursement are in conformity with the rules and regulations
- Check the overtime calculations with reference to the supporting records and approvals from competent authorities and is within the budgeted limits
- Check that advances of pay, TA, LTC, Festival advance, Motor Car \ Scooter \ TA advance etc are sanctioned in accordance with the rules laid down
- Ensure that loans are availed and utilised in the best interest of the company.
- Ensure that interest on loans is accounted properly and ascertain whether loan repayments are made in time to avoid penal interest.

4. Projects

- Ensure projects are approved by competent authority and FR \ DPR are prepared
- Ensure that projects are implemented according to schedule
- Analyse the rate contract with reference to the schedule of rate adopted and verify the amount along with the quantities executed agree with the schedule of rates.
- Check whether capitalisation of project is appropriately accounted

- Examine whether the company derived the benefits, advantages envisaged in the project proposal
- Check whether consultancy charges, know-how fee, Engineering fees are in accordance with agreement entered into with them
- Check the contract files on civil projects to ensure that there are no deviations in this regard
- Ensure that project funding pattern is adhered to.

19.7 Functional Areas and Periodicity

Functional Areas	Periodicity
Accounts - on selection	Annual
Transaction	Annual

CHAPTER 20

HLL LIFECARE LIMITED

20.1 Introduction

HLL Lifecare Ltd, Thiruvananthapuram (January, 2009), is the erstwhile Hindustan Latex Limited, established in the year 1966 with the aim of helping the country's Family Welfare programme. The Company's Registered Office is at Thiruvananthapuram, Kerala. Production started in 1969 with the setting up of facilities at Peroorkada, Thiruvananthapuram in collaboration with Okamoto Industries, Japan with an installed capacity of 144 m pcs. The current capacity of this factory is 576 m pcs.

In addition to the Peroorkada plant, a plant funded under United Nations Family Planning Programme (UNFDP) was started at Kanagala in Belgaum in 1987 for the manufacture of condoms with an installed capacity of 144 m pcs. Production of SAHELI, the non-steroidal contraceptive pill and that of MALA D \ N, the steroidal oral contraceptive pill were commissioned in 1992–93 1993–94 with an installed capacities of 30 million tablets and 30 million cycles respectively.

Akkulam Plant was set up in 1994 for the manufacture of COPPER-T at a cost of Rs.569 lakh with a capacity of 4 m pcs. During 1994–95 facility for the production of HYDROCEPHALUS SHUNT with a capacity of 5000 pcs and BLOOD BAGS with a capacity of 2 m pcs were also commissioned at a cost of Rs.972 lakh with technological assistance from NRDC (National Research Development Corporation) and Sree Chithrai Tirunal Institute for Medical Science and Technology.

20.2 Organisation Set-up

The Company is headed by Chairman & Managing Director who is assisted by two functional Directors and three Executive Directors.

20.3 Objectives

Mission of the Company is to be a World Class Health Care Company with focus on five key areas namely Business Leadership, Customer Focus, Innovation, Employee Satisfaction and Social Sector initiatives. The main objectives are:

- take up Social Marketing Projects.
- be an active player in realisation of the objectives in National Population Policy.

- strengthen information, education and communication aimed at enhancing the outreach of contraceptives in remote areas.
- upgrade the technology and quality to the international level.

20.4 Capital Structure

The Authorised and paid-up capitals of the Company are Rs.20 crore and Rs.15.535 crore respectively as on 31.03.2011, and is completely held by Government of India.

20.5 Production Department

The Company produces a wide range of Contraceptive & Health-care products. Contraceptives include condoms produced under several brand names, prominent being NIRODH series for Government of India and MOODS for direct marketing. Oral contraceptive pills are named SAHELI & MALA-D. COPPER-T is the other contraceptive product. HYDROCEPHALUS SHUNT & BLOOD BAGS are the health care products manufactured. The Company has launched Female condoms (velvet) in 2007-08.

The Company also trades in Sutures, Gloves, and Needle destroyers. During 2001–2002, the Company has launched Oral Rehydration Salt (ORS) in the brand name “JAL JEEVAN” and Iron & Folic acid tablets in the brand name “FERRO PLUS”.

The production process of condoms passes through the following

- Compounding
- Moulding, stripping and vulcanising
- Salvaging
- Testing
- Quality control
- Packing

(a) Records \ registers maintained

- Rated \ installed capacity and budgeted capacity of the plant
- Daily and monthly production statements
- Register showing consumption of raw materials and chemicals
- Norm \ standards for consumption
- Quality control files
- Downtime analysis
- Records of scrap and their disposal

(b) Audit Checks

- Ensure that the quantity produced, rejected and transferred to secondary stage are reconciled.
- Check consumption rate of raw materials and chemicals with norms \ standard. Ascertain reasons for material variations.
- Check quantities of wastage and rejections with norms-analyse reasons for taking remedial steps in case of adverse variations
- Analyse reasons for downtime and loss of production due to abnormal machine break down
- Ensure samples from all lots are received for testing
- Ensure that the quantities received, accepted, rejected and transferred to packing sections are reconciled.
- Examine the targets for packing materials in various type of packing
- Check capacity utilisation with rated \ installed capacity and budgeted capacity.
- Check whether consumption of power, fuel and water are within norms.
- Review the cost control measures and its effectiveness.
- Ensure that there are proper records for scrap and their disposal.

20.6 Stores

(a) Records \ registers maintained

- Receipt and issue of materials
- Bin cards
- Priced stores ledger
- List of slow moving, non-moving and obsolete items
- Physical verification reports
- Records relating to disposal obsolete \ surplus items

(b) Audit Checks

- Ensure that there is proper system for documentation of receipt, inspection, storage and issue of materials.
- Review slow-moving, non-moving and obsolete items.
- Ensure that transfer of materials from one unit to another is accounted properly.
- Ensure that items are physically verified as per laid down policy and differences are duly adjusted.
- Ensure whether there is a system for disposal of obsolete \ surplus items.

20.7 Purchases

(a) Records \ registers maintained

- Purchase order register
- Purchase order \ work order files
- Tender files
- Comparative statement among bidders

- Correspondence files relating to purchases made

(b) Audit Checks

- Review delegation of powers for purchases-tenders and contracts
- Check if company has the system of empanelling contractors for material supplies
- Ensure that tender procedure prescribed is adhered to.
- Ensure that purchase orders issued are according to terms and conditions finalised by the Company.
- Ensure that lowest possible quotation is accepted, if not, adequate reasons are recorded.
- Check the system of reviewing the previous performance of the contractor before the current order is placed
- Ensure that materials are supplied according to agreed terms and conditions.
- Examine tenders and technical bids for packing materials, Silicon oil, foil, pouch
- Whether market survey is conducted to expand the source of supply of major raw materials like latex to ensure competitive rates.

20.8 Personnel & Administration

(a) Records \ registers maintained

- Pay rolls
- Payments made in respect of superannuation and Voluntary Retirement Scheme
- Pay fixation
- Overtime register
- Loans and advances
- Contract \ agreement for engagement of casual and contract labour

(d) Audit Checks

- Ascertain whether the disbursements are in conformity with the rules and regulations.
- Examine terminal payments in respect of superannuation, VRS etc.
- Check the overtime calculations with reference to the supporting records and see that proper authority exists for incurring the overtime and that it is within the budget.
- Check that advances of pay, TA, LTC, festival advance, motor car \ scooter \ TA advance etc. are sanctioned and recovered in accordance with rules.
- Review engagement of casual and contract labourers and agreement with contractors and also ensure that all statutory obligations are complied with by the contractors \ company

20.9 Finance & Accounts

(a) Records \ registers maintained

- Cash and bank vouchers \ book
- Bank reconciliation statement
- Sundry debtors \ creditors ledger
- Loans and advances \ BGs \ deposits with banks
- Other Investments

(b) Audit Checks

- Ensure that loans are availed and utilised to the best advantage of the Company.
- Ensure that interest on loans is accounted properly.
- Ascertain whether loan repayments are made in time to avoid penal interest.
- Ensure that investments are made as per investment policy of the Company.
- Whether adequate internal control exists in respect of payments for purchases, work orders and other expenses.
- Ensure cash and bank statements are reconciled periodically.
- Ensure that all Statutory dues to Government \ Government Agencies are paid in time as per regulations as default \ violation results in stringent action.
- Also ensure wherever necessary, assistance from actuaries is taken for discharging statutory obligations like PF, Gratuity, leave encashment etc.

20.10 Sales & Marketing

(a) Records \ registers maintained

- Debit \ credit notes
- Sundry debtors register
- Outstanding \ overdue files
- Discount policy of the Company
- Bank guarantee \ security deposits

(b) Audit Checks

- Ensure that product despatched are properly invoiced \ effected only after due receipt of sale proceeds.
- Ensure that the discrepancies are adequately explained.
- Verify that shortage on delivery is correctly accounted and there are no abnormal losses in transit.
- Examine action is initiated for recovery of loss or damage during transit from Insurance Company \ Carrier.
- Ensure that credit and debit notes to customers are properly \ authorize \ accounted.
- Scrutinize advertising expenses and necessity for incurring the same

- Scrutinize age-wise analysis of debtors and test check realisability of long pending dues.
- Examine the discount policy of the Company and its implementation.
- Review bad debts and follow-up legal and recovery proceedings initiated in this regard.
- Ensure that prices of the products are as per pricing policy.
- Ensure that Bank Guarantee \ Security Deposits are obtained from agents, distributors.
- Examine cases of quality complaints, shelf-life expired condoms with distributors, replacement of condoms due to quality problems.
- Examine the utilization of DEPB benefits.

20.11 Projects Audit Checks

- Ensure projects are approved by competent authority.
- Ensure that projects are undertaken only after feasibility reports are prepared and detailed market study.
- Examine whether projects are implemented according to schedule.
- Analyze reasons for cost \ time overrun.
- Check whether capitalisation of project is appropriately accounted.
- Examine whether the Company had derived the benefits, advantages envisaged in the project proposal.
- Check whether consultancy charges, know-how fee, engineering fees are in accordance with agreement entered into.
- Check contract files on civil projects to ensure that there are no deviations in this regard.
- Ensure that project funding pattern is adhered to.
- Review all expenditure relating to pending projects.

20.12 Information Technology

Based on the report of TCS in 1991, the Company has developed IMIS (Integrated Management Information Systems) in Oracle language covering all the Production units & the Corporate Office. It covers the functions of Finance, Accounts, Payroll, Personnel and Material management & production data management. The three units at Thiruvananthapuram have stand-alone servers with IMIS and reports are generated, through VPN (Virtual Private Network).

Audit Checks

- Does the system design support the separation of duties?
- Are audit trails enabled at all times for all modules?
- Whether the Audit Trail is analysed to identify unauthorized access, errors committed etc.

20.13 Functional Areas and Periodicity

Functional Areas	Periodicity
Peroorkada - Finance & Accounts and Personnel & Administration	Annual
Peroorkada - Production, Marketing and Contracts	Annual
Thiruvananthapuram - Akkulam Unit	Annual
Kanagala Unit	Annual
Thiruvananthapuram - Accounts	Annual

CHAPTER 21

BHARATIYA NABHIKIYA VIDYUT NIGAM LIMITED (BHAVINI)

21.1 Introduction

Bharatiya Nabhikiya Vidyut Nigam Limited (BHAVINI) is a wholly owned Enterprise of Government of India under the administrative control of the Department of Atomic Energy (DAE). It was incorporated on 22nd October 2003 as a Public Limited Company under the Companies act, 1956 with the objective of constructing and commissioning the first 500 MW Fast Breeder Reactor (FBR) at Kalpakkam in Tamilnadu and to pursue construction, commissioning, operation and maintenance of subsequent Fast Breeder Reactors for generation of electricity in pursuance of the schemes and programmes of Government of India under the provisions of the Atomic Energy Act, 1962.

21.2 Major Activities

BHAVINI is currently Constructing a 500 MW Fast Breeder Reactor (FBR) at Kalpakkam, 70 Kms away from Chennai at the cost about Rs.3492 crore. The FBR is the forerunner of the future Fast Breeder Power Reactors and is expected to provide energy security to the Country. The FBR is being built with the design and technology developed at the Indira Gandhi Center for atomic research (IGCAR), also located at kalpakkam and is expected to go on stream by 2012.

21.3 Nuclear Power in the 21st century

The FBR will generate power by recycling plutonium and depleted uranium recovered from the spent fuel of the Pressurised Heavy Water Reactors of the Nuclear Power Corporation of India Limited (NPCIL), another PSU of the Department of Atomic Energy. The Fast Breeder Technology would thus, allow the nuclear power generation capacity to grow to 3.5 lakhs MWe without needing any additional Uranium.

21.4 Mission

To provide energy security in India by building and operating Fast breeder nuclear reactors in most cost effective way with due concern and care for safety and environment.

21.5 Objectives

(i) Development of Nuclear Power through FBR Technology

- To plan, execute and operate an integrated programme of fast breeder technology based nuclear power stations for generating electricity on commercial basis.
- To own, operate and manage as an agent power stations and ancillary facilities.
- To promote research and development on this field.
- To participate in selection of suitable sites for fast breeder power stations and ancillary facilities.
- To ensure safe and efficient disposal of waste products, participate in fuel cycle management.

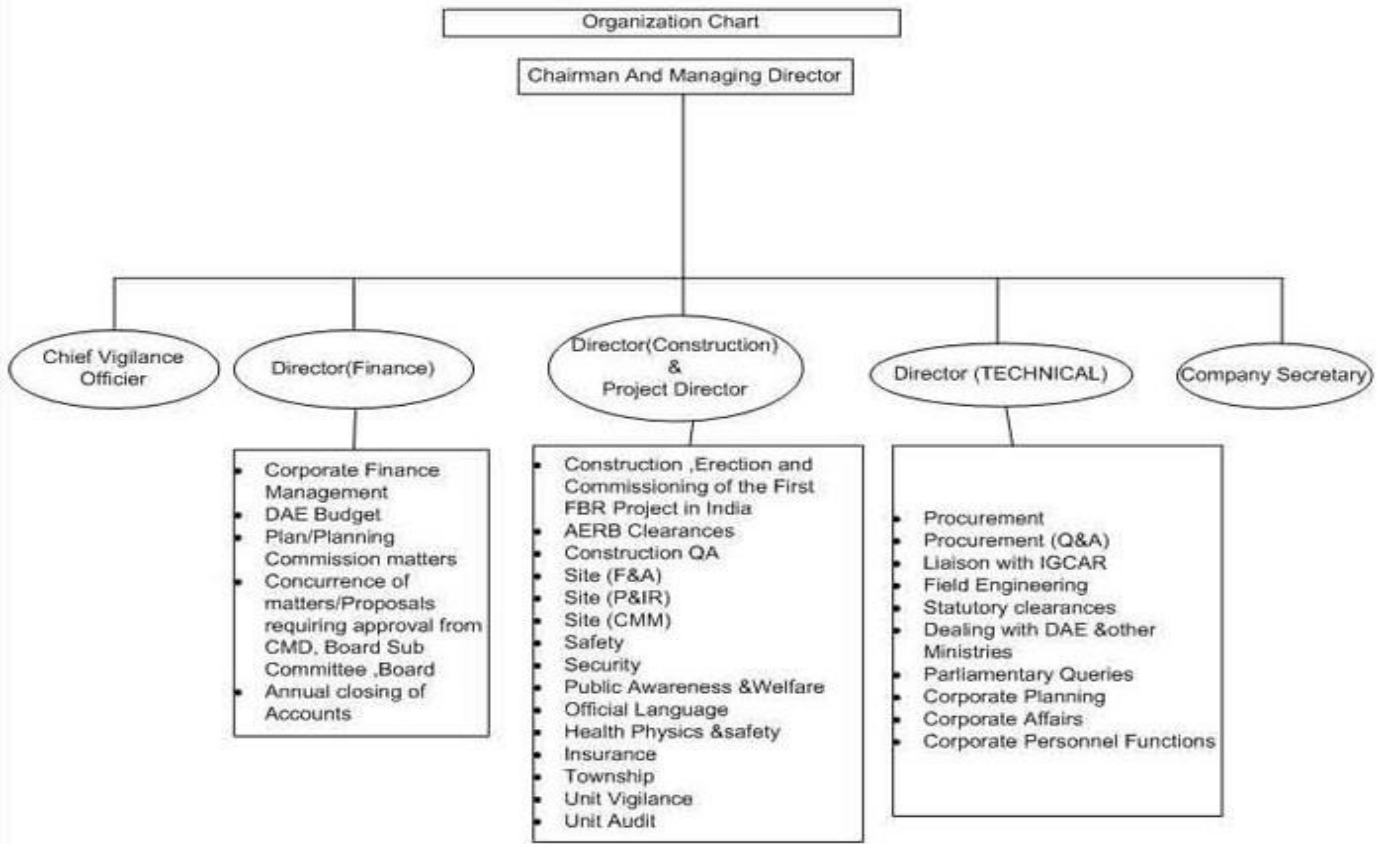
(ii) To engage in the business of purchasing selling importing, exporting, producing, trading, manufacturing or otherwise dealing in all matters relating to the planning and execution of fast breeder power projects including new technologies and associated transmission facilities.

21.6 Organisational set up

In the Company, the Construction, Technical & Procurement and Corporate finance functions have been placed under separate Directors reporting to Chairman and Managing Director (CMD).

The business of the company (BHAVINI) is managed by the Board of Directors appointed by the President of India. The Chairman and Managing Director is the Chief Executive of the Company who looks after the day to day affairs of the company under the supervision of the Board of Directors.

ORGANISATION CHART



21.7 Authorised Share Capital & Capital Investment

The authorized share capital of the company is 5000 crore of which Rs.3,047.85 crore is paid up as on 31.3.2011 as fully subscribed by Government of India.

21.8 Risk area

As on July 2011, 73 % of physical progress has been achieved. The success of FBR mainly depends upon Nuclear Power Corporation of India Limited (NPCIL) for uninterrupted supply of raw material for generation of power viz., recycled plutonium and depleted uranium recovered from the spent fuel of the Pressurized Heavy Water Reactors.

21.9 Records \ Registers maintained \ Audit checks

A. Finance & Accounts

Records \ Register:

- Contractor Account Bill Register
- EMD Register
- Work order Register
- Security Deposit Register
- Bank Guarantee Register
- Supplier Account Bill Register
- Supplier Advance payment Register
- Purchase order files (Capital & Revenue)
- Imprest Adjustment Day Book
- Travelling Expenses Day Book
- Subsidiary Ledgers for all Control Accounts i.e. suppliers, contractors, TDS, salary
- Provident Fund – Remittance
- Bank book for various accounts, Bank Reconciliation statements
- Fixed Assets Register
- Priced stock ledger
- Cash book

Audit checks

- Bank Account to be checked tallied and bank reconciliation statement analysed.
- Review of cash \ bank receipts and payments.
- Ensure that payment of statutory dues such as PF, ESI are paid in time as per regulations.
- Payment of allowances to employees to be checked and disallowable claims payments to be identified.
- Check additions to fixed assets with purchase invoices \ capitalisation of expenses.
- Check that all expenses incurred up to the completion of the project are capitalised.
- Check that all running account bills are paid as per measurement book entries and that cost of all materials supplied is recovered along with interest on mobilization advance.

- Check that EMD, Security Deposit, Bank guarantee are collected or adjusted as per contracted terms.
- Check the valuation procedures in respect of stock \ wip \ closing entries
- Ensure that the guidelines as per the check list for audit of high value purchase orders are followed without deviations or with justification for deviation, if any.

B. Contracts

Records \ Register:

- Indent \ P.O. Register
- Contractors empanelment for material supplies \ civil & electrical works
- Tender opening \ Late quotation register
- Hindrance register
- B.G. Register.

Audit Checks

- Examine whether prescribed procedures are adhered to in respect of all purchases and civil and electrical contracts including delegation of authority.
- Scrutinize tender procedure, evaluation of bids and award of contract to the lowest tenderer.
- Review of technical and commercial bids.
- Check that supplies are effected as per delivery schedule of the contract.
- Sanction of the competent authority for purchase to be ensured.
- To check that work orders are not split to avoid sanction of higher authority or to favour some party.
- Whether approval of the competent authority was obtained in case of extension of work delay in completion of work, additional quantities, increase in the scope of the work etc.
- Ensure that the guidelines as per the check list for audit of contracts are followed without deviations or with justification for deviations, if any.

C. Material Management

Records \ Register:

- Day Book
- Purchase order

- Mumbai Purchase order
- Discrepancy Report
- Functional Test (FTR) Forwarding Register
- Equipment Register
- Loan Register
- Cash Purchase receipt Voucher stock Register
- Material credit voucher control register
- Contractor Issue voucher control Register
- Contractor Credit Voucher Control Register
- Stock verification Register
- Material Accounting Information System

Audit checks

- Check the procedure regarding receiving, recording, inspection, stocking and issue of materials from and into stores.
- Check the procedure and frequency of physical verification of stores including reports.
- Check whether bin cards are maintained upto date and inventory levels fixed.
- Review ABC classification of inventories and non-moving \ slow moving \ obsolete stores.
- Stores ledgers to be scrutinised and segregation of capital stores, maintenance stores to be checked.

D. Establishment

Records \ Register:

- Service books & Personal files
- Loans & Advances Register
- Tuition fees Register
- Leave \ LTC encashment register
- Medical card Register
- 6.Imprest Register
- Log books.

Audit Check

- Fixation of pay of officials on deputation, serving employees to be checked.
- Log books for vehicles to be checked for performance, usage etc.
- Imprest account is checked for excess holding of cash. Also verify that disbursements are in conformity with the rules and regulations.
- Check that advances of TA, LTC, Festival Advance \ MCA \ HBA are sanctioned \ recovered in accordance with the rules.

E Projects

Audit check

- 1. Ensure projects are approved by competent authority.
- Ensure that projects are undertaken only after feasibility reports are prepared and detailed market study.
- Examine whether projects are implemented according to schedule.
- Analyse reasons for cost \ time overrun.
- Check whether capitalization of project is appropriately accounted.
- Examine whether the Company had derived the benefits, advantages envisaged in the project proposal.
- Check whether consultancy charges, know-how fee, engineering fees are in accordance with agreement entered into.
- Check contract files on civil projects to ensure that there are no deviations in this regard.
- Ensure that project funding pattern is adhered to.
- Review all expenditure relating to pending projects.

21.10 Functional Areas and Periodicity

Functional Areas	Periodicity
Accounts - on selection-	Annual
Transaction-	Annual

CHAPTER 22

ENNORE PORT LIMITED

22.1 Introduction

Ennore Port Limited is the first Corporate Port in India registered as a Company under the Companies Act, 1956.

22.2 Brief Activities of the Company

The Company has South Breakwaters (1070M), Northern Breakwaters (3080M) and Coal Wharf (560M) to accommodate vessels of 240M length each. The coal wharf is a dedicated length to handle bulk thermal coal for TNEB. For moving the coal to the Power Station there are two conveyor streams with capacity to move 4000 tonne per hour. Further there are two grab un-loaders with discharge capacity of 2000 tonne per hour (for unloading coal from gear less vessels) besides a hopper to receive coal from self-unloading ships have also been installed on “Build Operate and Transfer” (BOT) basis.

22.3 Organisation set up

The Company is headed by a Chairman cum Managing Director to whom the following officials are directly reporting:

- (i) Director (Marine Services) & Deputy Conservator of Ports.
- (ii) Director (Operations)
- (iii) Company Secretary
- (iv) Advisor (Technical)
- (v) Deputy General Manger (Finance)
- (vi) Port Liaison Officer

22.4 Capital Structure

The authorised equity capital of the Company amounted to Rs.500 crore out of which the paid up share capital of Rs.300 crore is shared by GOI and Chennai Port Trust at Rs.200 crore and Rs.100 crore respectively.

22.5 Applicability of special acts

- (i) Companies Act, 1956

(ii) Provisions contained under chapters I to VIII of the Indian Ports Act, 1908

22.6 Operations \ Technical Department

(a) Books \ Registers maintained

- Tender Register with details of sale of tender \ quotation, documents etc. (Development Wing)
- Monthly status Report to PMO on approved private sector \ captive Port projects \ private sector port projects under consideration or bids invited (Ports Wing)
- Capacity yielding schemes of 10th plan
- Monthly performance Report of Ennore Port

(b) Audit Checks

- To review the basis of fixation of tariff structure for supply of coal to customer and collection against terms of payment.
- To check whether terms and conditions prescribed for outsourcing contracts were fulfilled and to check whether the registers \ records to be maintained by the contractor are maintained in respect of marine \ other maintenance contracts.
- To check the tender \ contract files relating to capital projects under implementation and appointment of consultants thereto.
- To check special terms and conditions, if any, stipulated in dredging contracts.
- To examine Court \ Arbitration cases.

22.7 Accounts Department

(a) Books \ Registers maintained

- Salary, PF, TDS Register
- Sales and Bill Register
- Bank Book, Petty cash, Expense Book
- JV Register
- Advance Register
- Service Tax File
- Fixed Assets Register
- FD Register
- Contractors File

(b) Audit Checks

- Examine entries in Finance Concurrence Register, Budgetary control Register and satisfy that the instructions of finance concurrence and budgetary controls are being exercised strictly.
- Verify total budget sanction for each item of expenditure, details of amounts committed with reference to contract, balances available and actual expenditures under various budget heads, with the entries in the budgetary control register.
- Verify whether all contractors' bills for works awarded \ jobs undertaken \ maintenance work are received and entered in Bills Register.
- Examine whether payments against contractors' bills are as per contract conditions and connected records.
- Verify that time limits for completion of works stipulated in the contract are complied with the sanction from the competent authority obtained in cases where the time for completion of work has been extended as per the delegation of powers.
- Review of cash receipts and payments.
- Review bank receipts and payments with reference to bank credit \ debit advices, receipts, payment vouchers, supporting vouchers etc.
- Verify entries in the Assets Register.
- Verify suspense accounts, TA, LTC, Festival Advances, Motor Car \ Cycle \ Scooter Advances with loan register advance register.
- Examine cases of guarantee and counter guarantees their validity and revalidation.
- In the case of Investment of surplus funds made the following points may be checked.
 - (a) Ascertain whether the memorandum and articles of association permits such investments.
 - (b) Check if Company had formulated any guidelines for the investments and strictly adheres to them.
 - (c) Check the compliance with delegation of authority for investments.
 - (d) Ensure that any incentive \ commission received is duly accounted.
 - (e) Check if a system exists and that net worth, financial position, stability of the Company credit rating etc. were scrutinised before investments were made.

- (f) Check whether interest received for the correctness of the amount and period of receipt, and that system of monitoring is adequate.

22.8. Functional Areas and Periodicity

Functional Areas	Periodicity
Finance & Accounts	Annual
Operations & Contracts	Annual
Accounts Audit	Annual

CHAPTER 23

LAKSHADWEEP DEVELOPMENT CORPORATION LIMITED

23.1 Introduction

Lakshadweep Development Corporation Limited (LDCL) was incorporated on 22.12.1987 under Companies Act, 1956, with the Registered Office now functioning at Kavaratti Island of UTL

The main objectives of establishing Lakshadweep Development Corporation Ltd. (LDCL) as enshrined in the memorandum of association is as follows;

1. Survey, prospect and catch, develop, manufacture, conserve, culture, and artificially breed, preserve, process, and convert deal in wholesale and/or retail; and buy, sell, market, import and export all varieties of fish, shellfish, squids, cattle fish, octopus, marine products like oysters, pearls and sea-weed, and corals and jelly fish which are available from the sea and other waters.

2. Procure market, sell, process, preserve, develop, deal in import and export of agriculture produce, undertake civil supplies operations, industrial raw materials and finished industrial products.

3. To carry on the business of operation of ships both passenger and cargo and also acquire ships for operation and act as agents for operating and maintenance of both passenger and cargo vessel of Lakshadweep Administration and other Government and Private bodies.

23.2 Share Capital

The authorised share capital of the company is Rs.10.00 crore (10,00,000 Equity Shares of Rs.100 \ - each). The paid up share capital as on 31.3.2011 stands at Rs.6.50 crore.

23.3 Grants-in-aid by Govt. of India

For expansion of activities like Fish Meal Project at Agatti, Coconut Milk at Andoth and Desiccated coconut Powder Project at Kadmat, canning Factory expansion at Minicoy and for the computerisation and strengthening of office systems, Government of India had provided funds amounting to Rs.126.26 lakh by way of grant-in-aid as given below:

Sl. No.	Purpose-	Grant-in-aid amount (Rs. in lakh)	Date of Receipt
1.	-Fish Meal Project at Agatti	15.60	30.04.1992
2	Coconut Milk at Andoth and D.C.P. Project at Kadmat-	69.91 (40.00 coconut Milk + 29.91 for DCP)	21.09.1992
3	Canning Factory expansion, Minicoy	26.25	09.03.1993
4	Computerisation and strengthening of office systems-	2.50	27.04.1993
5	Establishing cold storage	12.00	21.04.1998

23.4 Organisational Set up

The Administrator of the Lakshadweep Islands is the Chairman of the Company who is stationed at Agatti Island. The Company is managed by a Board of Directors

Managing Director is the Chief Executive Officer of the Company and he is stationed at Kavaratti Islands. The Managing Director is assisted by a Company Secretary in organisational matters and he is stationed in the Ernakulam Office. Factory Managers report to the Managing Director.

23.5 Production Facilities

The product-wise location of production facilities with installed capacity is as follows:

Sl. No.	Name of the Product	Location of the factory	Installed capacity
1.	Canned Tuna Fish	Minicoy Islands (6,00,000 cans of 200gm each)	120 T
2.	Desiccated Coconut Powder	Kadmat	180 T
3.	Coconut Vinegar & Coconut Jaggery	Kalpeni	18 KL
4.	Masmin Flakes *	Agatti	400 T
* - Dried pieces of fish after removing bones and head.			

Records \ Registers maintained:

Minicoy (Tuna Fish Factory)

- Cash & Bank book
- Purchase & Stock Register
- Production & Finished Goods Register
- EPF Register
- Stores Register
- Salary Bills Register

Kadmat (DCP Unit)

- Purchase Book
- Raw Material Register
- Production Register
- Finished Goods Register
- Sales Book
- Cash Book

Ernakulam \ Cochin Office

- Personnel:**
1. Salary Register
 2. P.F. Register
 3. Leave Register

- Accounts:**
1. Stock Register
 2. Sales Register
 3. Fixed Assets Register
 4. Accounting Records - Cash Book, Bank Book, Journal, General Ledger, Personal Ledger
 5. Fixed Deposit Register
 6. Despatch Register

23.6. Computerisation

Compilation of Accounts from the stage of entering cash transactions \ vouchers upto the stage of preparation of final accounts has been computerized through a commercial package. No other function has been computerized.

Audit Checks

Cash and Bank Accounts

Verify \ Review

- Register of cheques \ demand drafts \ postal orders \ money orders received.
- Bank Statement. & Bank Reconciliation Statements.

- Verify whether cheques \ DDs are remitted into bank without delay \ omission.

Cash Management

- Verify whether there are surplus funds.
- How these are invested.
- Verify the returns such as interest or dividend, and optimizing returns.
- Ensure Company is utilising its funds as per board`s directives \ budget allocations and that no diversion had takes place.
- Verify to ensure that funds are not transferred to production more than the requirement.

Purchases

Fish

Check if prices are fixed based on seasonal demand and supply, quantity ceiling is adhered to; small sized fish are not bought (about 2 Kg. per fish).

Coconut

Check if prices had been revised at periodical intervals, with reference to relevant supporting papers.

Neera

Verify the recommendations of the Agricultural Officer for fixing lease rent per tree and review the justification for the recommended price.

Other Consumables

Verify to ensure that the following items are bought from approved agencies-

- Palmoelin Oil: National Dairy Development Board, Gujarat (NDDB).
- Furnace Oil: Public Sector Oil Companies
- Tins: Whether any new supplier has emerged in the market or not

Verify process of inviting and awarding of transportation contracts.

Production

Verify the production records; compare the output with reference to input and output-input norms over a period of time.

Observe whether any abnormal variations are there and if so, conduct a detailed review for comments.

Marketing and Sales

- Check credit policy and its approval by Competent Authority.

- Check if credit policy is being reviewed periodically after taking into account past experiences based on recovery.
- Check system of recording all sales transactions and its adequacy. including rates adopted
- Check if sales tax \ surcharge and other statutory levies are charged correctly.
- When sales are made on credit, verify whether they are correctly entered into debtors' ledger and outstanding are monitored regularly.

Fixed Asset Register

- Verify whether all the fixed assets purchased are entered in the register.
- Check if physical verification is done regularly and adequate for the organisation.
- Ensure that the assets disposed of are properly accounted including value realised.

Sundry Debtors

- Check that all credit sales are duly entered.
- Check the adequacy of the system of extension of credit to customers
- Check if dues are collected within the credit period.
- Ensure that credits are not extended to parties from whom debts are overdue.
- Check that discounts allowed, if any, are reasonable and with the consent of competent authority.

Sundry Creditors

- Check the system of posting Creditors Accounts and its adequacy
- Ensure if Creditors are paid on due dates.
- Check if discounts offered by the Creditors are availed of \ fully and correctly.
- Check that no interest \ penal interest is paid and analyse if such payment was avoidable.

Stores

- Verify the procedure for receipt of materials \ finished goods at Stores and issue and their accounting.
- Check if maintenance of stores records is adequate for this organisation
- Ensure that surplus \ slow and non-moving \ obsolete stocks are identified at regular intervals and timely action taken to dispose them off.
- Check if stock levels are fixed and procurement is done according the requirement.
- Verify the system for fixing of stock levels
- Check the frequency and adequacy of physical verification

Investments

- Check if delegation of authority exists for investments and that funds are parked in institutions authorized by the board.

- Check if investments are made as per the procedure approved by the Board.
- Verify whether investments are in the Company's name.
- Ensure that the returns are commensurate with appropriate parameters like market rate of interest, promised rate of return and they are received on due dates.
- Check whether the investments are encashed on due dates.

Loans

- Check if Loans are availed after due deliberation and under due authority.
- Ensure that loans are availed according to need and not excessively.
- ensure that the rates of interest are not excessive in comparison to market rates.
- check that the loans are not drawn while the Corporation is having surplus funds.
- Verify that the repayment of principal and payment of interest are made on due dates and penal interest is avoided.
- Ensure that commitment charges are paid where unavoidable.
- Verify that loan funds are not invested for lesser returns than the rate of interest on loans.

Internal Audit

- Verify the terms and conditions of appointment of Internal Auditors – to see: -
 - whether it has been duly approved by Board of Directors.
 - that the scope of internal audit, clearly specified.
 - that the fees charged by Auditors are commensurate with the nature and volume of work and responsibility involved.
- Verify the scope of internal audit as to whether it covers all activities of the Company.
- Review the internal audit reports as to whether the internal auditors have covered their entire scope of work.
- See that the reports are objective and not of a routine nature.
- Review the follow up action taken on internal audit reports and system for corrective action on the deficiencies pointed out by internal auditors.

Computerization

- Review the level of computerization with reference to investment made on computers
- Ensure that software purchased is the most suitable for the organization and at the most optimum price
- See if rights for work based improvements vests with the company only and such rights are also purchased at the inception itself.
- Verify whether system is programmed to give the intended output without error.

- Verify whether the computer section is effective in reducing the work load of other departments.
- Review whether duplication of work persists alongside computerization of records.

Others

- Review of Agenda Notes and Board Minutes.
- Review compliance with statutory provisions relating to Income Tax, Sales \ service Tax, Excise, and Customs.
- Check guest house records and effective utilization and its maintenance.
- Verification of vehicle utilization with log books.
- Verification of Advances to staff and its recovery.
- Review of incentive wage system introduced in Tuna Fish Factory and DCP Unit.
- As regard credit guarantee schemes, the following checks may be done
 - (a) Whether it conforms to policy \ objective for which it is approved.
 - (b) Whether the amounts guaranteed under Credit Guarantee Scheme are properly spent for the purpose for which it was given.
 - (c) Whether the prompt repayment is made as per terms and conditions of the scheme.
 - (d) Whether the Company's interest has been protected on every loan guaranteed under the scheme.
- Verify the functions of secretarial section and the economical functioning of this section as the Chairman, Managing Director and Secretary are stationed at three different locations.

23.7. Functional Areas and Periodicity

Functional Areas Periodicity

Accounts Annual

Transaction Annual

CHAPTER 24

TAMIL NADU TRADE PROMOTION ORGANISATION

24.1 Introduction

Chennai Trade Centre is set up at a prime location in the Chennai metro at Nandambakkam, in an area of over 25 acres of land with exhibition halls and support services. CTC has three halls six meters height to display all merchandise including machinery. The Trade Centre is architecturally and technically designed to be a “state-of-the-art” Exhibition Complex. The Air – Conditioned halls with no intermittent pillars or columns, are eminently suitable for multi-purpose use of organizing exhibitions, conferences, conventions and conducting other trade, commerce and industry-related events. All the halls are inter-linked and Hall No. 3 is connected with convention centre.

24.2 Objectives

The main objective of the Company is to promote, organize and participate in Industrial trade and other fairs and exhibitions in India and abroad and take all measures incidental thereto for promoting Indian Industry trade and enhance its global competitiveness and also to organize trade fairs and invite participation in export promotion activities.

24.3 Capital Structure

The authorized capital of the Company is Rs.50 lakh comprising 5000 shares of Rs.1000 each. India Trade Promotion Organisation (ITPO) and Tamil Nadu Industrial Development Corporation (TIDCO) are the joint venture partners of the company share the equity share capital in the ratio of 51: 49. The paid up share capital of the Company as on 31.03.2011 amounted to Rs.1.00 lakh.

24.4 Organisation Structure

The organisation is headed by Chairman deputed from ITPO and Managing Director from Government of Tamil Nadu. They are assisted by Manager (Engineering), Manager (Marketing), and Finance Officer and Company Secretary in charge.

List of records \ registers maintained

- Cash \ bank vouchers \ Imprest cash book
- Bank reconciliation statement
- land transfer
- consultancy \ agreement

- Customs files
- Sundry debtors ledger
- Board minutes and agenda notes
- Purchase order \ work order register
- Housekeeping and security contracts
- Records relating to collection of license fees

Audit Checks

- Verify the cash book \ bank book with reference to receipt \ payment to vouchers.
- Bank accounts to be checked, tallied and Bank Reconciliation Statement to be analysed.
- Verify the procedure relating to land acquisition \ land transfer.
- Review the contracts \ agreements with consultants and verify the whether the payments are in accordance with the terms of the contract.
- Verify whether follow-up is taken for collection of license fee.
- Scrutinize customers' file and verify the outstanding and follow-up is taken.
- Examine whether prescribed procedure is adhered to for purchases made and or as per delegated financial powers.
- Review of Board Minutes and Agenda Notes.
- Scrutinize the contracts entered into with house-keeping \ security.
- Check the basis for the fixation of rent for the premises let out and see whether the prescribed fee has been collected.
- Periodicity of revision of rent commensurate with minimum return on investment

24.5 Functional Areas and Periodicity

Functional Areas	Periodicity
Finance and Accounts	Annual
Operations and Contracts	Annual
Accounts Audit	Annual

CHAPTER 25

PONDICHERRY ASHOK HOTEL CORPORATION LIMITED

25.1 Introduction

Pondicherry Ashok Hotel Corporation Ltd. (PAHC) is a Joint Venture between India Tourism Development Corporation Ltd. (ITDC) and Pondicherry Industrial Promotion Development Investment Corporation Ltd. (PIPDIC) which holds the shares of PAHC in the ratio of 51:49. PAHC was incorporated on 18th June 1986 as a Public Ltd. Company.

The Corporation is managed by a Board of Directors nominated by ITDC and PIPDIC. The Chairman is nominee of ITDC and the Managing Director is a nominee of PIPDIC

The Hotel commenced business on February 6th 1989 with 20 rooms. A suite was added in 1993-94 and a Conference Hall added in 1994-95.

25.2 Main Departments of the Hotel

The Hotel is administered by a General Manager, who reports to the Managing Director.

The Accounts Department is headed by an Asst. Manager (deputed by ITDC) who reports to the General Manager.

Audit Checks

Records Maintained

Front Office

- Reservation \ Arrival \ Departure Register
- Guest Reservation Cards
- Guest Bills
- Front Office Receipt Book \ Cash Book
- Telephone & Postage Registers
- Discount and Allowance Vouchers
- Encashment Certificates

Checks to be exercised

- Whether the entries in the Guest Registration Cards are correct and that the tariff (European \ American \ Modified American Plan) is correctly recorded.
- Check if the Guest Bills are properly drawn up with the rent chargeable for the duration of stay and entries are properly posted.
- Where discounts have been allowed, whether the same is in accordance with the Discount \ Allowance Vouchers, properly authorised.
- Whether recoveries, at the approved rates, are effected from the Guests with reference to the entries in the Telephone \ Postage Register.
- Whether the collections from the Guests on payment of bills, and collections from the Restaurant \ Bar etc. are entered in the Front Office Cash Book.
- Whether the collections recorded in the Front Office Cash Book are handed over to the Accounts Department and Banked within the stipulated time.
- Whether bills against credit are forwarded to the Accounts Section for collection.
- Whether Exchange rates (Recorded in a Register) are obtained daily from the bank and applied for the Foreign Currency transactions correctly.
- Whether the receipt of Foreign Currency is properly recorded in the Foreign Currency Register.
- Whether the Occupancy reported by the Front Office tallies with the occupancy report of the House Keeping Dept.
- Check daily 'tab ledger' with respect to Sales \ Rents with bills & income journal.
- Check the system of charging for other services rendered \ availed by customers

Restaurant

Records Maintained

- Inventory Register
- Linen Register
- Bill books
- Restaurant Sales Summary

Audit Checks

- Examine Inventory and Linen Registers with respect to the Goods Received Notes, indents etc. to ensure the correctness of entries.
- Check Physical Verification Reports vis-a-vis the above registers to ascertain losses if any and the action taken therein.

- Check if wastages are kept at the minimum

Bar

Records

- Bar Stock Register
- Bar bill books
- Sales Summary

Checks

The audit checks for the Restaurant apply mutatis mutandis to the bar. also

Kitchen

Audit Checks

- Examine monthly Food Cost Statements and check if food cost is reasonable compared to the volume and rates.
- The Corporation has fixed 35 % of sale of food and beverage as the food cost. Check if this limit is exceeded reasons therefor has to be examined.

Stores Department

Records Maintained

- Stores Register \ Priced Stores Ledger
- Goods Received Vouchers
- Indents for consumption \ purchase
- Purchase Orders

Audit Checks

- Check that all purchases are effected only against specific indents from designated authorities
- Selection of suppliers against quotations tenders etc., to be scrutinised to ensure economy in purchases.
- Correlate Suppliers Bills with Purchase Orders Good Received Vouchers and Security Passes to ensure receipt of materials and prices.
- Check Priced Stores Ledger with reference to Goods Received Vouchers and Bills.
- Check Closing Balances with reference to Physical Verification Report.
- Check the periodicity of physical verification and its adequacy for this industry

House Keeping Department

Records Maintained

- House Keeping Consumption Register
- Linen Stock Register
- Daily Laundry Exchange Slips
- Daily House Keeping Reports
- Damaged \ Unserviceable Stores

Audit Checks

- Check consumption register vis-a-vis room occupancy and norms fixed
- Correlate indents, stores issues and entries in the register.
- Examine Linen Stock Register for accuracy of postings.
- Cross-check the Linen Stock Register with Physical Verification Reports.
- Check Daily Laundry Exchange Slips to ensure that all linen sent to the Laundry are returned.
- Correlate Daily Reports with the Daily room occupancy reports of Front Office.
- Whether damaged unserviceable linen and blankets are segregated and reported. Disposal files are also to be scrutinised.
- Check the system of recovering the cost of damages to hotel property and its adequacy \ implementation

Accounts Department

The department maintains books of accounts, effects payments and pursues credits.

- Check Cash book with reference to receipts \ vouchers.
- Check payment vouchers with reference to authority for payments, attendance, purchase orders and related certificates.
- Check Income journals with reference to Tab Statements.
- Check Cash receipts from Front Office with reference to Tab Statements and Front Office Cash Book.
- Check that all foreign currency, Travelers Cheques and Cheques are promptly deposited as per Reserve Bank of India guidelines.
- Check that Bank Reconciliation Statements (BRS) are prepared immediately after closure of the month and variations, if any, are analysed and reconciled. Exceptional entries shall be investigated.
- Foreign exchange gain \ loss figures to be scrutinised for accuracy.
- Examine individual creditor's files and Employee sub ledger to ascertain settlements of credit extended.
- Examine whether credit bills are promptly forwarded to the Travel Agencies \ Credit card organisations for speedy settlement.
- Examine fixed assets register with reference to bills.
- Check the necessity of making overtime payments

General

In addition to the above the following records are also to be examined:

- Agenda and Board Papers
- Delegation of Powers
- Statistics regarding Room and Food sales
- MIS Statements
- Annual Accounts

25.3 Functional Areas and Periodicity

Functional Areas	Periodicity
Accounts (Selection)	Annual
Transaction	Annual

CHAPTER 26

INDIAN DRUGS & PHARMACEUTICALS (TN) LTD

26.1 Introduction

The Indian Drugs and Pharmaceuticals Limited (IDPL) established the Surgical Instruments plant at Madras for the manufacture of Surgical Instruments in September 1965 with an installed capacity of 2.5 million pieces of Instruments. The Company also set up a formulation plant within the factory during 1979-80. The unit was declared as sick unit under Sick Industries Companies (Special Provision) Act 1955 and referred to the Board of Industrial and Financial Reconstruction (BIFR) in March 1992. Based on the revival plan approved by BIFR on 10.02.1994, the Madras Plant was converted into 100 % owned subsidiary Company of IDPL Ltd. Accordingly, a Company by name IDPL (Tamil Nadu) Ltd. was incorporated on 11.03.1994 with an authorised capital of Rs.4 crore.

26.2 Objectives and brief Activities of the Company

(a) Objectives

The objectives of the Company is to carry on the business of manufacture processing, exporting, importing, transporting, selling, distributing, trading, dealing in, and disposal of (a) all kinds of Instruments \ Appliances and such other instruments equipments of surgical, ophthalmic, pathological, Electro-medical and diagnostic instruments (b) all types, varieties, formula and kinds of drugs and pharmaceuticals in the form of injectibles and transfusion solution, tablets, capsules and \ or in any other form and equipment, accessories and intermediate for the manufacture of the same of organic and inorganic chemicals of all types, drugs of synthetic origin including Ayurvedic, Homeopathic drugs, preparation and medicines.

To take over or otherwise acquire all or any part of any land, business, including Goodwill, Trademarks, Stocks, Machinery, Plants and other Assets and Liabilities of any person, unit-including that of Madras unit of IDPL, Company or concern carrying on business which the Company is authorised to do, carry on or is possessed of property suitable for the Company or that is likely to benefit the Company directly or indirectly in the attainment of its objectives.

(b) Brief Activities

The Company is engaged in production mainly of formulation products (drugs) \ Surgical Instruments, limited scale job order and also Trading Items.

26.3 Capital Structure

The capital structure of the Company consists of authorised equity share capital of Rs. 4 crore consisting of 40 lakh Equity Shares of Rs.10 each. The paid-up portion of equity share capital consists of the following elements.

	<u>Rs.</u>
(1) Paid up share capital held by IDPL Gurgaon of 10,000 equity share of Rs.10 each	1,00,000
(2) Consideration pending allotment for IDPL 2,16,24,200 equity shares	21,26,42,000
Total	21,27,42,000

26.4 Organizational Set up

The Company is headed by General Manager in-charge who is assisted by one Deputy Finance Manager on Financial and Accounting functions. Production, engineering, stores and marketing departments are managed by officers of different grades reporting directly to GM in charge.

26.5 Computerization \ Activities of EDP Section

Two Personal Computers, one with P III and another with Celeron 855 MHz constitutes computer Hardware. In addition, the Company has one LIPI 'Tally T6050' printer. The Company has Tally made software for inventory, financial accounting, pay bill and debtors system. Data is accumulated, checked, batches prepared and periodical feeding is done.

26.6 Records \ Registers maintained

1. Finance & Accounts

- Cash & Bank Book
- General ledger
- Sundry \ Assets register
- Sundry creditors
- Priced store ledger
- Sales \ Purchase day boo

2. Commercial & Marketing

- Manual sales day book
 - (a) Formulation sales
 - (b) Surgical sales
 - (c) Trading sales
- Realisation records
- Excise duty R.G.23 other registers
- Sales Tax records and other returns
- Agreement with parties
- Stock records of finished instrument surgical and formulation finished goods

3. Personnel Department

- Rent register in respect of outside occupations indicating due and received
- Man power records
- Service register in respect of employees
- Leave register in respect of employees
- Personal files of employees

4 Production Department \ Service Department

- Shop wise production details
- Stock record and shop floor stores
- Quarters allotment registers
- Electricity consumption
- Telephone register

Points to be seen during audit

- Check of production records \ statements for formulation, surgical instruments and other job orders undertaken by the Company.
- Review of sales invoices for formulations, surgical instruments and others.
- Check of legal cases.
- Check of sales tax assessment files.
- Check of Central Excise Duty Records.
- Review of records relating non-moving \surplus items \ obsolete stores and materials.

- Check of physical verification reports on Inventory items and other assets.
- Check of canteen agreement \ records.
- Check of records relating to occupancy of Company's quarters.

26.7 Functional Areas and Periodicity

Functional Areas	Periodicity
Production, Purchase, Marketing and Contracts	Annual
Finance and Accounts	Annual
Accounts Audit	Annual

CHAPTER 27

AIRPORTS AUTHORITY OF INDIA (AAI)

27.1 Introduction: Airports Authority of India (AAI) was constituted by an Act of Parliament and came into being on 1st April 1995 by merging erstwhile National Airports Authority and International Airports Authority of India with a view to accelerate the integrated development, expansion and modernization of the operational, terminal and cargo facilities at the airports in the country conforming to international standards. The merger brought into existence a single Organization entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and air space in the country.

Airports Authority of India (AAI) manages 125 Airports which include 11 International Airports, 08 Customs Airports, 81 Domestic Airports and 25 Civil Enclaves at Defence Airfields. AAI also provides Air Traffic Management Services (ATMS) over entire Indian Air Space and adjoining oceanic areas with ground installations at all Airports and 25 other locations to ensure safety of Aircraft operations.

The Airports at Ahmedabad, Amritsar, Calicut, Guwahati, Jaipur, Trivandrum, Kolkata and Chennai are today International Airports open to operations by Foreign International Airlines. Besides, the International flights, National Flag Carriers operate from Coimbatore, Tiruchirappalli, Varanasi, and Gaya Airports too. Tourist Charters now touch Agra, Coimbatore, Jaipur, Lucknow and Patna Airports etc.

AAI has entered into Joint Venture at Mumbai, Delhi, Hyderabad, Bangalore and Nagpur Airports to upgrade these Airports and emulate the world standards.

All major air-routes over Indian landmass are Radar covered (29 Radar installations at 11 locations) along with VOR \ DVOR coverage (89 installations) co-located with Distance Measuring Equipment (90 installations). 52 runways provided with ILS installations with Night Landing Facilities at most of these Airports and Automatic Message Switching System at 15 Airports.

AAI's successful implementation of Automatic Dependence Surveillance System (ADDS), using indigenous technology at Calcutta and Chennai Air Traffic Control Centre's

gave India the distinction of being the first country to use this advanced technology in the South East Asian region enabling effective Air Traffic Control over oceanic areas using satellite mode of communication. Use of remote controlled VHF coverage along with satellite communication links has given added strength to our ATMS. Linking of 80 locations by V-Sat installations shall vastly enhance Air Traffic Management and in turn safety of aircraft operations besides enabling administrative and operational control over our extensive Airport network. Performance Based Navigation (PBN) procedures have been implemented at Mumbai, Delhi and Ahmedabad Airports. It is likely to be implemented at other Airports in phased manner.

AAI has undertaken GAGAN project in technological collaboration with Indian Space and Research Organisation (ISRO). In GAGAN project, navigation will be through satellite based system. Navigation signals received from GPS will be augmented to achieve the navigational requirement of aircrafts. 1st Phase of technology demonstration system has already been successfully completed in February 2008. Development team has been geared up to upgrade the system in operational phase.

AAI has also planned to provide Ground Based Augmentation System (GBAS) at Delhi and Mumbai Airports. GBAS equipment will be capable of providing Category-II (curved approach) landing signals to the aircrafts. The proposed system will replace the existing instrument landing system in the long run, which is required at each end of the runway.

The Advanced Surface Movement Guidance and Control System (ASMGCS), at Delhi have been installed by AAI. It has upgraded operation to runway 28 from CAT-III A level to CAT-III B level. CAT-III A system permits landing of aircrafts up to visibility of 200 mtrs. However, CAT-III B will permit safe landing at the Airports when the visibility is below 200 mtrs. but is above 50 mtrs.

AAI's endeavour viz. enhanced focus on 'customer's expectations' has evinced enthusiastic response to independent agency, which has organized customer satisfaction surveys at 30 busy Airports. These surveys have enabled AAI to undertake improvements on aspects recommended by the Airport users. The receptacles for 'Business Reply Letters' at Airports have gained popularity; these responses enabled AAI to understand the changing aspirations of Airport users. During the first year of the millennium, AAI endeavoured to

make its operations more transparent and the availability of instantaneous information to customers by deploying state-of-art Information Technology.

The specific training, focus on improving employee response and professional skill up-gradation, has been manifested. AAI's four training establishments' viz. Civil Aviation Training College (CATC) - Allahabad, National Institute of Aviation Management and Research (NIAMR) - Delhi and Fire Training Centres (FTCs) at Delhi & Kolkata are expected to be busier than ever before.

AAI has also undertaken initiatives to upgrade training facilities at CATC Allahabad and Hyderabad Airport. Aerodrome Visual Simulator (AVS) has been provided at CATC recently and non-radar procedural ATC simulator equipment is being supplied to CATC Allahabad and Hyderabad Airport.

27.2 Objectives:

While the Government is separately developing a policy framework for the entire civil aviation sector, this policy relates to use and development of airport infrastructure. The Policy on Airport Infrastructure should always be read along with the National Policy on Civil Aviation. The objectives of the policy are

- to provide a boost to international trade and tourism and enhance the country's image in the community of nations;
- to provide airport capacity ahead of demand, in order to handle an increasing volume of air traffic and to garner the maximum share of traffic in the region;
- to enhance airport facilities to make the airport user friendly and achieve higher level of customer satisfaction.
- to ensure total safety and security of aircraft operations by the introduction of state-of-art air traffic, security and related services;
- to provide multi-modal linkages;
- to provide a market orientation to the present structure, bridge the resource gap and encourage greater efficiency and enterprise in the operation of airports, through the introduction of private capital and management skills;
- to foster the development of a strong airport infrastructure, maintaining a balance between the need for economic viability and the objective of equitable regional dispersal of infrastructural facilities;

- in the achievement of the above objective, to lay special emphasis on the development of infrastructure for remote and inaccessible areas, especially the North East, the hilly and island regions; and
- to encourage transparency and clarity in the decision-making processes of Government and its public sector units.

Policy has necessarily to change in response to a rapidly transforming global scenario, although the process of transformation has to be progressive, orderly and safeguarded. Looking at what has been achieved in other countries, there is a wide gap which needs to be bridged first.

27.3 Functions

- Design, Development, Operation and Maintenance of international and domestic airports and civil enclaves.
- Control and Management of the Indian airspace extending beyond the territorial limits of the country, as accepted by ICAO.
- Construction, Modification and Management of passenger terminals.
- Development and Management of cargo terminals at international and domestic airports.
- Provision of passenger facilities and information system at the passenger terminals at airports.
- Expansion and strengthening of operation area, viz. Runways, Aprons, Taxiway etc.
- Provision of visual aids.
- Provision of Communication and Navigation aids, viz. ILS, DVOR, DME, Radar etc.

27.4 Activities:

Passenger facilities

The main functions of AAI inter-alia include construction, modification & management of passenger terminals, development & management of cargo terminals, development & maintenance of apron infrastructure including runways, parallel taxiways, apron etc., Provision of Communication, Navigation and Surveillance facilities including provision of DVOR \ DME, ILS, ATC radars, visual aids etc., provision of air traffic services, passenger facilities and related amenities at its terminals thereby ensuring safe and secure operations of aircraft, passenger and cargo in the country.

Air Navigation services

In tune with global approach to modernization of Air Navigation infrastructure for seamless navigation across state and regional boundaries, AAI has been going ahead with its plans for transition to satellite based Communication, Navigation, Surveillance and Air Traffic Management. A number of co-operation agreements and memoranda of co-operation have been signed with US Federal Aviation Administration, US Trade & Development Agency, European Union, Air Services Australia and the French Government Co-operative Projects and Studies initiated to gain from their experience. Through these activities more and more executives of AAI are being exposed to the latest technology, modern practices & procedures being adopted to improve the overall performance of Airports and Air Navigation Services.

Induction of latest state-of-the-art equipment, both as replacement and old equipments and also as new facilities to improve standards of safety of airports in the air is a continuous process. Adoptions of new and improved procedure go hand in hand with induction of new equipment. Some of the major initiatives in this direction are introduction of Reduced Vertical Separation Minima (RVSM) in India air space to increase airspace capacity and reduce congestion in the air; implementation of GPS And Geo Augmented Navigation (GAGAN) jointly with ISRO which when operationlized would be one of the four such systems in the world.

Security:

The continuing security environment has brought into focus the need for strengthening security of vital installations. There was thus an urgent need to revamp the security at airports not only to thwart any misadventure but also to restore confidence of traveling public in the security if air travel as a whole, which was shaken after 9 \ 11 tragedy. With this in view, a number of steps were taken including deployment of CISF for airport security, CCTV surveillance system at sensitive airports, latest and state-of-the-art x-ray baggage inspection systems, premier security & surveillance systems and smart cards for access control to vital installations at airports are also being considered to supplement the efforts of security personnel at sensitive airports.

Aerodrome facilities:

In Airports Authority of India, the basic approach to planning of airport facilities has been adopted to create capacity ahead of demand in our efforts. Towards implementation of

this strategy, a number of projects for extension and strengthening of runway, taxi track and aprons at different airports has been taken up viz. Extension of runway to 7500 ft. to support operation for Airbus-320 \ Boeing 737-800 category of aircrafts at all airports.

27.5 HRD Training

A large pool of trained and highly skilled manpower is one of the major assets of Airports Authority of India. Development and Technological enhancements and consequent refinement of operating standards and procedures, new standards of safety and security and improvements in management techniques call for continuing training to update the knowledge and skill of officers and staff. For this purpose AAI has a number of training establishments, viz. NIAMAR in Delhi, CATC in Allahabad, Fire Training Centres at Delhi & Kolkata for in-house training of its engineers, Air Traffic Controllers, Rescue & Fire Fighting personnel etc. NIAMAR & CATC are members of ICAO TRAINER programme under which they share Standard Training Packages (STP) from a central pool for imparting training on various subjects. Both CATC & NIAMAR have also contributed a number of STPs to the Central pool under ICAO TRAINER programme. Foreign students have also been participating in the training programme being conducted by these institutions.

27.6 IT implementation:

Information Technology holds the key to operational and managerial efficiency, transparency and employee productivity. AAI initiated a programme to indoctrinate IT culture among its employees and this is the most powerful tool to enhance efficiency in the organization.

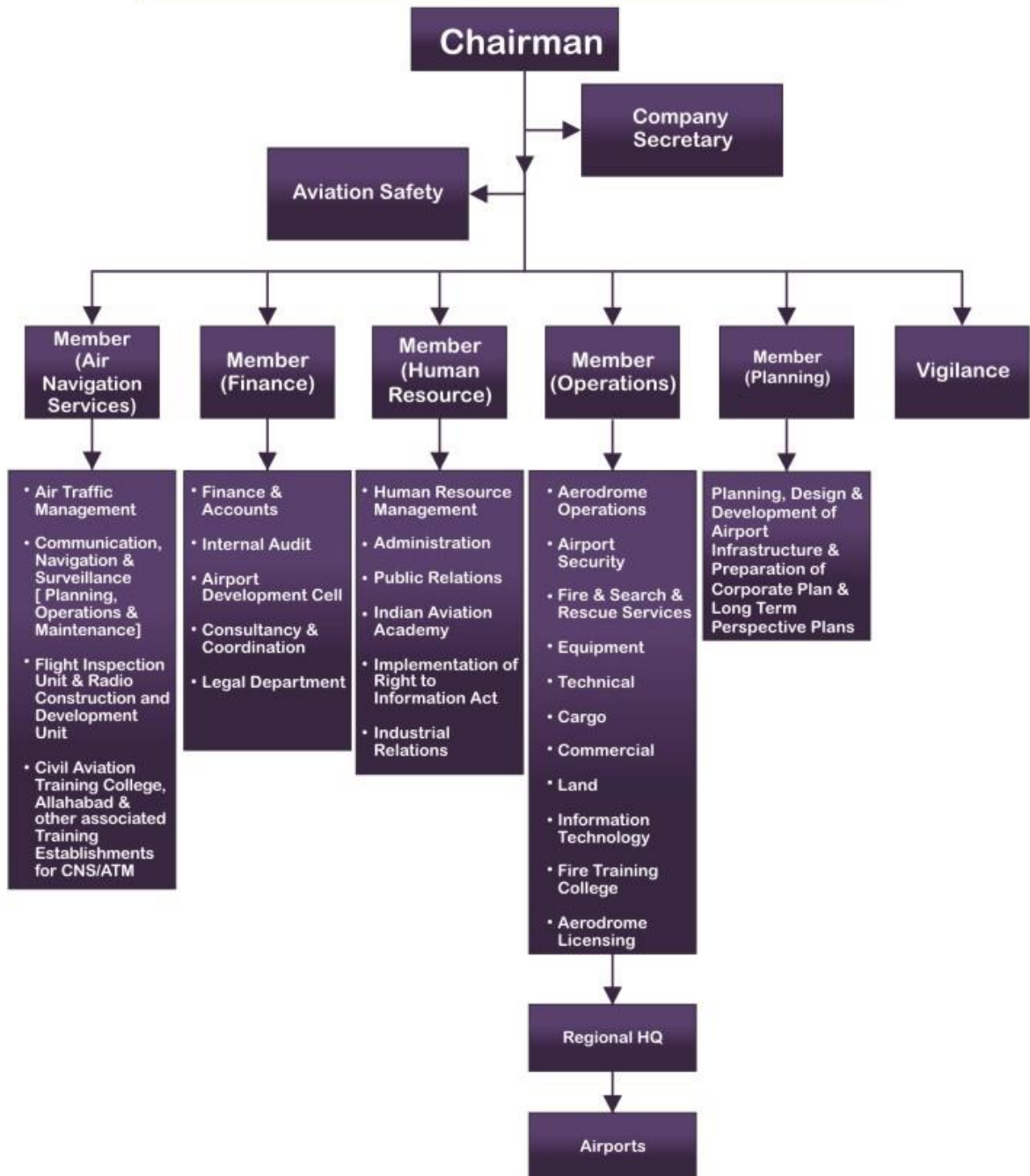
27.7 Capital structure

As on 31st March 2011 Subscribed and paid up of the Board was Rs.655.61 crore and the Central Government holds all the 100 %.

27.8 Organizational set up

The Company is under the administrative control of the Ministry of Civil Aviation. The affairs are managed by the Board of Directors headed by a Chairman and Managing Director (CMD) who is assisted by Director (Finance), Director (Aviation safety), Director (Projects Monitoring and Quality control), Director (Operations), Director (Planning), Director (Commercial), Chief Vigilance Officer, Executive Committee, Management Committee and a team of Senior Officers i.e. Executive Directors.

Functional Chart of AAI



Airports Authority of India Chennai Airport Project was started in 1980, as an Independent Unit. The Regional Executive Directors \ Airport Director is head of the International Airport Division and Regional Director is head of the National Airport Division.

Regional Executive Directors \ Airport Directors (APDs) of 5 International Airports under the control of IAD may also take stock of the existing commercial facilities vis-à-vis, existing revenue from all such facilities and fix target for the next 5 years for enhancing non-traffic revenue. In case of Mumbai, Delhi and Chennai Airports, the increase could be 50 % to 100 % and for remaining airports the increase could be 25 % to 100 %. The above suggested target may be achieved by creation of new commercial facilities as well as timely renewal of the existing contracts.

27.9 Monitoring of target achievement & performance

- Regional Executive Directors would monitor and review the performance as well as the quality of service of the commercial licenses granted at the airports under their control.
- Member In charge of Commercial Deptt. would monitor and review the performance as well as the quality of service of the commercial licenses awarded at the IAD Airports.

27.10 Accountability and responsibility

Regional Executive Directors \ Airport Directors shall be accountable for monitoring and reviewing the performance of the commercial contracts in the following areas:-

- To achieve the targeted revenue from commercial facilities at airports under their control.
- Timely tendering action, execution of agreement and renewal of the licence before the expiry of its term.
- Payment performance of the licensees. The quarterly reports of defaulters may be sent to Commercial Department, Central HQrs. (CHQ).
- Compliance of the terms and conditions of the licence agreements by AAI.
- Compliance of the terms and conditions of the licence agreement by Licensees.
- Compliance of the service standard by the Licensees as per norms laid down by AAI.
- Maintenance of a separate dossier of performance in respect of each licensee.

- Action against the defaulting licensees.
- Submission of quarterly reports to Member In charge of Commercial Deptt. At Hqrs. with regard to the performance of the licensees and action has taken report.
- Quarterly report to Member In charge of Commercial Deptt. at CHQ with regard to the creation of new facility vis-à-vis percentage increase in the non-traffic commercial revenue.

27.11 Services Offered by AAI

I. Air Traffic Management

AAI has drawn plans to upgrade ATM infrastructure in the country both in terms of conditional provision of automation systems and upgradation of technology which also involves shifting from ground based navigation to satellite based navigation.

Current Status

Modernization of Air Traffic Services

a) At Mumbai and Delhi

Upgradation of automation systems to (Auto Track-III) with new Air Traffic Controller assistance features such as Arrival Manager, Departure Manager, is almost complete and is at various levels of testing prior to declaring operational.

Advanced Surface Movement Ground Control Systems (ASMGCS) added to improve efficient handling of Aerodrome Traffic.

Automatic dependent surveillance I CPDLC has enhanced the surveillance of suitably equipped aircraft over the entire Flight Information Region.

b) At Hyderabad and Bangalore

Advanced integrated automation systems, that integrates state of the art Radars, flight data processors, air situation display Advanced Surface Movement Ground Radars, have been installed by SELEX Integrity for providing effective Air Traffic Management.

c) At Chennai \ Kolkata

ATS modernization project is underway for replacing old Radars, surveillance systems by the latest state of the art technology on par with Mumbai I Delhi to provide a common platform for integration of the entire systems over Indian Airspace, which will effectively increase Air Traffic capacity and bring synergy in ATS operations.

d) At Other Area Control Centres (Nagpur \ Varanasi \ Ahmedabad \ Trivandrum \ Mangalore)

Integration of Radar with flight data processors completed by ECIL in collaboration with AAI for providing indigenous automation solutions for effective Air Traffic Management within the designated airspace.

e) Initiatives to Enhance the Standards of ATS

Performance Based Navigation: (PBN), Standard Instrument Departures (SIDs) and STARs (Standard Terminal Arrival Routes) have been introduced at Delhi, Mumbai, Ahmadabad and Chennai order to reduce delays to aircraft.

Established a number of ATS Connector routes in Mumbai and Chennai airspace to facilitate PBN operations.

AAI has drawn the concept of future India Air Navigation (FIAN), and is on the threshold of introducing Air Traffic Flow Management over busy routes, dedicated helicopter routes, providing automation systems at 35 non metro control towers, and the use of space based augmentation system (GAGAN).

II. Communication \ Navigation \ Surveillance (Planning)

Planning, procurement and commissioning of all Communication, Navigation & Surveillance (CNS) facilities and support systems for air navigation based on short term and long term requirements to synchronize the organisations plan with ICAO's approved plans is managed by CNS Planning Department. Preparation of qualitative requirements and system specifications in coordination with all concerned agencies \ organizations, preparation of estimates, invitation of tenders, tender evaluation of technical and commercial bids, placement of orders factory inspection of equipment and its subsequent installation and commissioning are the responsibilities discharged by the CNS Planning Department.

Conducting site surveys for equipment location, from technical and operational suitability point of view, coordination with planning, civil and electrical engineering departments for associated construction activities for installation and commissioning, post installation performance checks and organizing flight calibration before equipment commissioning are the aspects intrinsically involved in the process. To meet the challenges posed by ICAO CNS ATM transition plans for SATCOM based Air Traffic Management, the CNS Planning Department have already been accomplished.

Automatic Dependent Surveillance (ADS)

ADS have already been installed and successfully tested for operations at Chennai, Kolkata, Delhi and Mumbai airports.

SAT Com. Network

Implementation of a dedicated Sat.Com Network amongst 80 airports all over India to support data and voice communication, including remote controlled air ground VHF communication to provide VHF coverage over the entire Indian air space, networking of Radars and ATS data communications is in progress.

Area Augmentation System

GAGAN, the space based augmentation systems for airspace has been taken up in collaboration with ISRO. Initial technical demonstration phase has been successfully completed & the total operational phase is schedule to be completed by 2013.

III. Airport Planning

Planning has been an integral part of the AAI. Almost all departmental processes at airports have been undertaken in-house, be it airport feasibility studies, design of passenger terminals, cargo terminals, aircraft hangars, aircraft parking stand with fuel hydrant systems, runways, taxiways, airport lighting systems, electric supply arrangements, runway and taxiway lighting, approach lighting systems, air-conditioning arrangements, passenger information systems, baggage handling systems, car parking facilities etc.

38 Airport Architects, working in close coordination with Civil & Electrical & HVAC Engineers, airport operation experts, air traffic controllers etc. constitute the airport planning division. Airport master planning including land use plans; environmental aspects etc. constitute an integral part of airport planning processes. The Airport Planning Department of the AAI utilizes in-house Computer Aided Design (CAD) concepts.

Corporate Planning & Management Services

The Corporate Planning & Management Services Department is primarily engaged in compilation of data \ information on aircraft movements, International and Domestic passengers and Cargo transiting through airports; organizing user satisfaction surveys; conducting normative surveys to evaluate passenger and cargo processing time and area required for designated terminal capacities to streamline systems for optimum infrastructure utilization; scanning developments in civil aviation sector \ across the world to keep abreast with the latest trends in airport ground infrastructure utilization and management techniques.

The Department consists of Statisticians and Airport Management Executives with field representatives at major airports for onsite compilation of correct information. Interaction with Airline Operators, Ministry of Commerce, Ministry of Industry & international bodies associated with Civil Aviation, other airport operating agencies etc. is maintained by the Department to keep abreast with the fast changing developments in the Civil Aviation infrastructure industry.

IV. Airport Construction

(i) Civil Engineering

The Civil Engineering Department, consisting of Civil and Structural Engineers, undertakes structural design of passenger and cargo terminals, aircraft hangars, runways and other pavements, technical buildings for installation of airport ground aids etc. AAI's in-house requirements and consultancy projects. To ensure timely completion of projects, without cost overrun, the department adopts its proven technique of deputing a Project In-charge for each of the projects undertaken, within the organization and on consultancy basis, with adequate delegated powers.

The department is facilitated by in-house soil and material testing laboratory and the R & D Unit which have rendered valuable work on engineering especially in utilization of locally available material, adoption of new techniques for pavement design and pavement evaluation etc. The safety aspects of aircraft operations like maintenance of friction level of runway and riding quality of runway surface are also ensured by the Civil Engineering Department.

The project management teams, under the Project In-charges carries out the bulk of activities including project monitoring, contract management and quality control. The department has proven track record in successfully completing major projects undertaken by AAI at international level, under difficult logistics and varying climatic conditions prevailing at project's sites and also during the construction of strategically important airports in India like the airport at 'Agatti' in the Lakshwadeep islands and the airport at Leh at 10,683 ft. AMSL. AAI has successfully completed the New Terminal Building Project at Jaipur, Udaipur, Srinagar, Dehradun, Cooch Behar, Gaya, Dibrugarh, Nagpur, Aurangabad, Pune, Calicut, Vizag, Trichy, and Mangalore. New Terminal Building projects are under construction at Varanasi, Lucknow, Barapani, Ranchi, Raipur, Madurai, Mysore, Coimbatore, Ahmedabad, Bhopal and Indore. A new greenfield airport at Pakyong, the only airport in the State of Sikkim, is coming up with latest terramesh \ green terramesh technology where the height of cut \ fill is up to 50 meter. Planning for new green field airports at Cheithu, Itanagar to handle ATR-72 type of aircraft with ILS facility is in progress.

A separate wing under the Civil Engineering Department normally looks after the day to day maintenance requirements of the civil engineering aspects of airport management and operations. The Civil Engineering Department of AAI is not only capable but willing to accept any challenge in the field of airport civil engineering to add additional feathers in its cap.

(ii) Electrical Engineering

The Department of Electrical Engineering comprises a team of dedicated Electrical Engineers, having the wide range experience in various specialized E&M services for Airport Terminal Buildings & Airfield Lighting Works. The jobs includes designing, planning and execution of various Electrical & Mechanical works comprising indoor lighting schemes, external lighting works, central air-conditioning of terminal buildings, power supply schemes including standby power generating sets, fire fighting & fire alarm systems, Electro-Mechanical equipments like Elevators, Escalators, Revelators, Passenger Boarding Bridges, Elevated cargo transfer vehicle (ETV) & Cargo storage and re-trivial system etc. at various Airports. In addition they are also responsible for planning, designing and execution of ground lighting works comprising of Runway Lighting, Taxiway Lighting, Approach

Lighting and other equipment connected with landing and navigation of the Aircrafts. The Engineering Department is also responsible for constructing and maintaining the buildings \ structures in which communication and other electronic equipment, used for landing and navigation of Aircrafts, is housed. Internationally approved standards in the electrical installations are adhered to keep fully abreast with the ever changing techniques and needs of the Passengers and the Airlines. The Department of Electrical Engineering maintains close interaction with the Department of Airport Planning, Civil Engineering, CNS (Planning), Airport Operations, Air Traffic Management etc. for an integrated approach to airport projects ensuring user friendly airport designs, safe aircraft operations and timely completion of works.

V. Domestic Projects & Management Services

Chennai

(i) Development of Kamraj Domestic Terminal Phase-II, Expansion of Existing Anna International Terminal and face-lifting of existing Terminals at Chennai Airport

The scope of the work incorporates Construction of additional International and Domestic Terminal building with an additional area of 59,300 sqm. and 67,700 sqm. respectively to handle 14 million passengers on International & Domestic Side at a time at the cost of Rs.1808 crore with scheduled date of completion in January 2011. The proposed extension of Terminal Building shall be of two level building having large span with frameless glazing, profile sheet roofing, ACP & SS cladding over walls & columns, granite & vitrified tile flooring perforated tiles system for better acoustics etc. Interior decor shall confirm to local art & aesthetics. Terminal shall be equipped with modern facilities including Central Air-conditioning, Elevators, Escalators, Aerobridges, Automatic Frameless Doors and Automatic Revolving Doors, Fire detection and alarm system, Surveillance CCTV system, IT systems, Security systems, Flight information display system, PA and car call system, EPABX, Fire fighting systems viz. automatic hydrant and sprinkler system and Building Management system etc. Extension of Secondary Runway 12 \ 30 for 1,030 mtrs. to cater to B-747 Series of Aircraft; construction of parallel taxi-track to the Secondary runway; 11 nos. parking bays for B747-400 type of aircrafts and taxi-links.

(ii) Construction of Integrated Cargo Complex (Phase-III) at Chennai Airport.

The scope of work consists of Construction of Integrated Cargo Building (Ph-III), Car park and Truck dock including electrical works i.e. Internal Electrical Installation, HVAC (Low side) & Fire fighting at a cost of Rs.68.01 Crore with scheduled completion in January 2010. The total area of Cargo Building is 30,015 sqm. (Ground floor - 19,935 sqm & First Floor - 10,080 sqm) and its Car park & truck dock area is 24,400 sqm.

VI. Consultancy Services Offered by AAI

1. Airport Feasibility Studies

1. Site selection/Technical Feasibility
2. Topography Surveys, Cartography and Soil & pavement Investigation Facilities.
3. Airport Obstruction Clearance Surveys.
4. Air Traffic Forecasts & Normative Surveys.

1. Airport Development Services

1. Concept to commissioning service for new green field airports
2. Preparation of TOR.
3. Preparation of DPRS.
4. Mandatory ministry clearances.
5. RFP for module implementation/Scrutiny /Award

1. Airport Commercial Viability Studies/Airport Audit Services.

1. Airport Master Planning.

1. Designing, Evaluation & Construction of:

1. Air Passenger Terminals/Air Cargo Terminals.
2. Airport Pavements.

3. Design of Aircraft Hangars and Supporting Infrastructure.
 4. Airport Electrical Installations/Approach and Night Landing Facilities.
 5. Remodelling, Modernisation of Airports.
1. Planning, Installation, Operation & Maintenance of:
 1. Radars, Nav Aids, Visual & Non-Visual Landing Aids and Com. Facilities.
 1. Air Space & Air Traffic Management, Air Route Re-Structuring
 1. Development of SIDS, STARS, IAL Procedures, Obstruction Charts.
 2. Planning & Design for Airport Fire Safety Services.
 1. Airport Management on Turnkey Basis.
 1. Computerisation
 1. Cargo Handling.
 2. Integrated Passenger Information System.
 3. Automatic Self Briefing System.
 4. Airport Terminal Information System.
 5. Air Traffic Management and Airlines Billing.
 6. Automatic Message Switching System.
 1. Training
 1. Air Traffic Controllers.
 2. Airport Air Side Management (Ground Flight Safety).
 3. Radar & Nav. Aids & Communication Equipment.
 4. Engineers.
 5. Airport Terminal Management.
 6. Airport Fire Services.
 1. Flight Calibration of Airport Ground Facilities

1. Commissioning & routine flight check of RADAR System, VOR, DME, NDB, ILS, VASI, PAPI etc.

27.12 Contingency plan to repair airports \ landing strips damaged by floods \ earthquake etc.

Objective:

The objective of this plan is to rehabilitate operational pavements and buildings in the event of natural calamities etc. in order to assure continuity or early resumption of service, the management of organization has the responsibility to recover from incidents such as flood, earthquake etc. in the minimum amount of time with minimum disruption and at minimum cost. This required careful preparation and planning.

Purpose:

The purpose of the contingency plan document is to set out the responsibilities and required actions \ role of various personnel agencies involved in dealing with contingencies affecting the airport.

The scope of the contingency plan is to document the command, communication and co-ordination functions for executing the plan. The purpose of airport contingency procedures is to protect and retrieval of airport facilities resulting from floods \ cyclones.

To ensure that there is:

- An orderly and efficient transition from normal to contingent situations and back to normal operations.
- Delegation of airport contingency authority.
- Assignment of contingency responsibilities.
- Authorization by key personnel for actions continued in the plan.
- Co-ordination of efforts.

Execution of Plan: The actions that can be taken to minimize the damage and expedite restoration of airports in the minimum amount of time with minimum disruptions and at minimum cost are as under:

A) Pre-Disaster Measure:

I. Organization:

(i) At the Head Quarters

a) Appointment of Nodal Officer at Head Quarters:

Executive Director Engg. will be designated as the Nodal Officer at Head Quarters to coordinate with the Nodal Officers of various Airports and also to communicate with the Ministry of Home Affairs etc. on matters relating to disaster management. He will convene meetings of the Quick Response Team (QRT) as and when required and communicate recommendations \ decisions of the team to all concerned. In his absence, immediate officer below him in hierarchy will function as the Nodal Officer.

b) Constitution of Quick Response Team (QRT):

A Quick Response Team headed by the Nodal Officer, will be constituted at the Head Quarters, as per the composition indicated in Annexure-I, which will function as the focal point for overseeing \ monitoring the position in regard to disaster management. The QRT, suo motto or after scrutiny of the reports received from the Nodal Officers at the airports, will take decisions and give suitable directions to the Nodal Officers at various airports.

(ii) At each Airport

a) Appointment of Nodal Officer

The Engineering Head at each airport will be designated as the Nodal Officer for handling emergency situations related to natural calamities \ disaster management. He will convene the meeting of the local Quick Response Team (QRT) and also liaise with the Nodal Officer at the Head Quarters, Airport Director and other offices \ agencies concerned. In his absence, immediate officer below him in hierarchy will function as the Nodal Officer.

b) ` Quick Response Team (QRT)

The Nodal Officer, in consultation with the Airport Director, will constitute a Quick Response Team at each Airport, as per the composition indicated in Annexure-II, with representations from all the Engineering Divisions working at the Airport. As the very name suggests, the Quick Response Team (QRT) will swing into action as quickly as possible whenever any natural calamity \ disaster takes place, assess the damage, chalk-out and put

into action plans \ strategies for disaster management and closely oversee the operations. The QRT will identify various types of disasters \ incidents which could occur at the airport and estimate the response time required for the Team, possible extent of damage, measures needed to be taken and items required for disaster management etc. The QRT may also record within 24 \ 48 hours of the occurrence of the natural calamity \ disaster, response time taken by the Team, extent of damage, measures needed and taken for disaster management etc. A report to this effect will be sent, through the Nodal Officer, to the Nodal Officer at the Head Quarters. The Engineers in the Team will report to the Nodal Officer and will take action on his advice \ as per the decision of the QRT and will be collectively responsible for execution of decisions \ plans \ strategies regarding disaster management.

II. Maintenance of Essential Lists:

The following list may be kept ready at each airport to meet any emergency.

- List of persons \ agencies to be contacted for emergent requirement
- List of material to be kept for emergency at Airport
- List of material requirement
- To prepare a comprehensive list of the potentially serious incidents that could affect the normal operations of the airports. This list may include all possible incidents no matter how remote the likelihood of their occurrence. From this list, the requirement list indicating the name of natural calamities \ man-made incidents has been prepared.
- List of major working contractors & suppliers and their contact numbers, who have necessary equipments may be drawn up and kept ready

III. Budget Provision:

Budget provision may be made for natural calamities every year.

IV. Delegation of financial powers to the Airport Director:

The Airport Director on the basis of the recommendations made by the QRT may be delegated necessary powers to sanction expenditure required to be incurred, including approval of spot quotations in connection with the disaster management. However, where the

expenditure exceeds his normal powers, Airport Director will seek ex-post-facto approval of the competent authority, immediately after incurring the expenditure.

(B) Post-Disaster Measure:

- QRT or the Team of Engineers as authorized by the QRT, may as quickly as possible survey the airport, assess the damages and work out material \ manpower requirements, if any, immediately, for restoration of the airport operations.
- Spot Quotations shall be invited from the working agencies \ firms having the requisite materials and equipment. The Airport Director shall have the powers to approve the spot quotations on the recommendations of the QRT, based on its assessment of the damage caused. However, where the expenditure exceeds his normal powers, Airport Director will seek ex-post-facto approval of the competent authority, immediately after incurring of the expenditure.
- Necessary damage control operations will be commenced immediately with the available manpower \ material, supplemented by emergent procurements, if any.
- A periodic action taken \ status report will be sent by the Nodal Officer to the Nodal Officer at the Head Quarters, as part of constant monitoring of the position \ for additional requirements, if any.

Testing the Plan:

The preparedness to such emergencies shall be checked at regular intervals by a nominated officer (to be nominated by the Airport Director) not below the rank of DGM and a Register for it shall be maintained. The officer shall check the emergency preparation and enter his observations in the Register. The testing process itself must be properly planned at each airport and may be carried out in a suitable environment to reproduce authentic conditions, to the extent possible. The plan must be tested by those persons who would undertake those activities if the situation being tested occurred in reality. The test procedures may be documented and the results recorded at each airport regularly. Necessary feedback emerging from these periodic checks shall be reported by each Nodal Officer to the Nodal Officer at the Head Quarters for fine-tuning of the Contingency Plan. Any changes in the

approved "Contingency Plan" will be made with the approval of the Ministry of Civil Aviation.

Personnel Training:

It is necessary that all personnel at each airport must be made aware of the plan and must know its contents and their own related duties and responsibilities. Again, it is important that all personnel take the disaster recovery planning seriously even if the events, which would trigger the Plan, seem remote and unlikely. The feedback from staff shall be obtained and furnished to the Nodal Officer in order to ensure that responsibilities and duties are understood; particularly those, which require close dependency on other`s actions.

Maintaining the Plan:

The plan must always be kept up to date and applicable to current circumstances. This means that any changes to the airport working process or changes to the relative importance of each part of the airport operation process must be properly reflected within the plan. For this purpose, an officer not below the rank of AGM will be assigned responsibility by the Airport Director, to ensure that the plan is maintained and updated regularly and may also ensure that information concerning changes to the operation process are properly communicated to the Nodal Officer at the airport, who will, in turn, keep the Nodal Officer at the Head Quarters abreast of such changes, for effecting suitable changes, if any, in the Contingency Plan with the approval of Ministry of Civil Aviation.

27.13 Airport Audit, Commercial & Cargo

Airport Audit

Annual performance audit of each individual airport has, in fact, been a regular feature in AAI. These are predominantly conducted by the departments themselves. Over the years, specific people in each department have developed expertise on conducting airport performance audits to highlight the change in systems necessary to orient towards the organization`s mission and to achieve the annual goals set by the Board of AAI. AAI can quickly organize a team of experts from Planning, Engineering, Operations, Commercial, Cargo and Corporate Planning & MS Deptt., to undertake airport audits for specific areas of concern at any particular airport or for airports as a whole.

Commercial

Economic viability of airports has assumed utmost importance and the trend to privatize airports and make them economically self-sustained have gained worldwide momentum. The capital intensive nature of airport establishment throws up challenges of unprecedented magnitude to generate revenues to sustain operations and maintain growth. With limited scope for enhancement in traffic related revenue, the emphasis world over has been to increase the `non-traffic revenue` by increased commercial exploitation of available space, airport infrastructure, improved and competitive passenger shopping facilities, advertisements etc. This implies professionalism in managing commercial aspects of airport.

The non-traffic revenue of the AAI is in the range of 20-30 % of total revenue while British Airport Authority (BAA) generates 70%. Cargo revenue has seen a growth of almost 300% in last 5-6 years. AAI has over the last 10 years or so developed a team of experts in the field of commercial aspects and based on the experience gained, can provide assistance to other airport operators in improving the financial viability of the airports.

Cargo

The Department of Cargo has grown gradually with establishment of Gateway Air Cargo Terminals at Kolkata (1975), Chennai (1978) & Delhi (1986) and the capacities have been augmented keeping pace with air cargo growth.

The Integrated Air Cargo Terminal at Delhi provides for export \ import transit cargo handling facilities. The Cargo Management System here has been upgraded to a fully computerized "On Line" Integrated Cargo Management system with Electronic Data Interchange (EDI) and Bar Coding Capabilities. The Cargo Management Systems at Mumbai, Chennai & Kolkata are also computerized though not yet "On Line system". At Delhi, the Multi level ETV system for handling loaded pallets & containers is being augmented by an additional ETV system enhancing the present 284 slot capacity by almost 50 per cent.

A perishable Cargo handling terminal with `Pre-cooling' chambers, independent chambers for Fruits, Flowers, Frozen Products etc., has been in operation at Dehi. A much bigger Perishable Cargo Terminal is planned at Mumbai Airport where perishable cargo constitutes 40% of total air cargo.

AAI Air Cargo Terminals provide for Truck Docks, Strong Rooms, Live Animal Sheds, Hazardous Cargo Godown, and Palletisation Station, Offices for Airlines, Government Regulatory Agencies, Multi-model Cargo Operators, Break Bulk Agents and Consolidators for ease of operation and user convenience. To meet safety standards CCTV Systems, X-rays Scanners etc., are provided.

Internal Audit

- Commercial Audit of all the commercial licences awarded at the international airports and major domestic airports shall be conducted once in a year by the Internal Audit Department of CHQ.
- Periodical Audit of commercial licences at the airports is carried out by the respective regions \ international airports by a team of Senior Officers once in three months and report submitted to CHQ.
- CHQ conducts such audits once in 6 months by selecting airports from each region.
- Senior Officers on tour may also include inspection of commercial licences as a part of their visit and submit reports for better monitoring and follow up.

AUDIT CHECK

IDENTIFICATION \ CREATION OF COMMERCIAL FACILITIES

- Check if detailed drawings of a building (new \ re-modified \ expansion) are prepared and approved by the Planning Department and sent to Department of Commercial at Hqrs.
- Check if the space \ location of the facilities identified by Commercial Deptt. received the concurrence of all the head of departments concerned.
- Check if all commercial proposals \ requirements are evaluated for:
 - i. Viability of the proposal from physical location and clearance from planning point of view.
 - ii. Usefulness of the service
 - iii. Future growth prospects and
 - iv. Quantum of non-traffic revenue forecast.

EARMARKING FACILITY

- Whether specific physical dimensions and precise location are identified for the proposed scheme \ facility eg. in case of a building, whether area of the plot is identified based on utilities required \ proposed.
- Where it is a part of the Master Plan, the purpose for which it is earmarked is clearly indicated.
- Whether REDs \ APDs \ Station In-charge ensured site clearance in time for execution of the new Contracts and that site is ready in all respects and free from all encumbrances.
- Check if 'No Objection Certificate' from all the Departments concerned obtained including DGCA, BCAS, Police, Security, Health and any other local authorities
- Check if REDs \ APDs \ Station In-charge ensured the availability of utilities like water, electricity, outlet for disposal of water, removal \ disposal of garbage, service lift, other basic and \ or mandatory facilities etc.

27.14 Fixation of minimum reserve licence fee \ earnest money deposit \ rebate due to ban on visitors entry

Whether Department of Commercial (CHQ) \ REDs \ APDs \ Station In charge has determined \ reviewed the Minimum Reserve Licence Fee (MRLF) based on any one of the following parameters:

- Space rent on prevailing rate.
- Licence fee of any similar existing facility at the same airport.
- Last licence fee received for the similar facility + 10 % increase.
- Change in opportunity cost of the space earmarked due to change in business potential.
- Return @ 12 % of the average gross turnover during the currency of the licence period for the commercial facility at airports under Group 'A' & 'B'. This percentage can however be reviewed by RCAC keeping in view the ground realities. In case of airports under Group 'C' & 'D', RCAC \ LCAC may adopt the percentage of return below 12 % keeping in view the ground realities.

- In case of any new commercial facility at an airport, where MRLF cannot be determined by the above suggested methods, market rate and local conditions is also to be considered as a guiding factor.
- Commercial potential of the facility.
- Any other scientific basis \ trade practice

(h) **Periodicity of the contract.**

Whether the MRLF so determined based on above principle has been approved by Local Commercial Advisory Committee (LCAC) \ Regional Commercial Advisory Committee (RCAC) \ Member (In-charge) \ Commercial Advisory Board (CAB).and the tenure of the contract including extensions

Handing over of site \ facility

Whether

- Site \ facility is clearly earmarked on paper and physically measured on site.
- Handing over \ taking over report duly prepared and signed by the competent authority and the licensee.
- Standard pictograph and proper signage indicating the location \ facility \ service are provided by AAI. However, the shops signages as per specifications \ dimensions approved by AAI are provided by tenderer.
- Arrangement of utilities like internal telephone \ electricity \ water connections etc. are provided by AAI as per terms and conditions of tender documents.

Intimation by department of commercial to department of finance & accounts for billing \ payment

Whether:

- Copy of award letter and agreement is sent to local Accounts Department and proper acknowledgement kept in the relevant file of the Commercial Department.
- Date of handing-over is intimated along with copy of handing over \ taking-over report of the contract under acknowledgement thereof.

- Date of commencement of licence is indicated.
- Brief note is sent by Commercial to Finance indicating the dates of award, possession, completion of formalities, raising the bills, details of security deposits etc.
- System exists in Finance is opened separate file of each case \ contract and to record all receipts and other relevant details.
- All fixed deposits \ bank guarantees towards security deposits are kept under the safe custody by Deptt. of Finance. Bank Guarantee shall remain valid beyond a period of 6 months after completion of contract. Details of FDRs \ Bank Guarantees along with photocopies thereof are retained by Commercial Deptt. for monitoring.

Monitoring of quality of service \ payment performance:

Monitoring of Performance

Commercial department shall ensure that:

- (a) Maximum Retail Price' is displayed at prominent place in the premises;
- (b) rates approved by AAI for items \ services \ facility are displayed at prominent locations in the premises.
- (c) Hygienic conditions and quality of services are provided
- (d) Periodical checks are carried to ensure the above.
- (e) Proper notices are to be issued by Commercial Deptt. to concerned licensee indicating the areas of unsatisfactory performance, breach \ violation in the contract terms and penal action as per terms and conditions of the Licence Agreement taken after 3 notices in case no improvement is shown.

Monitoring of Payment performance

Whether:

- The Finance Department which assigned the duties for billing at Airport is ensured billing and realization of licence fee and other dues within the time frame indicated in licence agreement.

- A separate dossier is maintained for recording the payment performance of each licensee in compliance with the terms and conditions indicated in the Licence Agreement.
- Every alternate month Finance Deptt. is intimated the details about the payment performance including confirmation about the timely payment and position of outstanding dues of each licensee to Commercial Department.
- The dossier maintained by Deptt. of Commercial \ Finance regarding the performance \ payment performance of each licensee are reviewed every month and Action Taken Report is submitted once in 3 months sent to Hqrs. including action taken against the concerned licensee for unsatisfactory performance.

27.15. Constitution and Inspections by Quality Control Committee

- Quality Control Committee (QCC) constituted at each airport comprising the officers from Deptt. of Operations, Finance, Commercial and Engineering conducted surprise checks so as to monitor the quality of services \ performances in all the areas.

27.16 Procedure for taking action against defaulting licensee

- In case of ex-licensee, whether their security deposits are encashed and adjusted against outstanding dues. Balance amount, if any, is recovered in consultation with Law Deptt. The details of outstanding dues against the ex-licensee are reported to RHQ \ CHQ. After exercising encashment of the deposits \ invoking the bank guarantee is completed, whether action under PPE Act for recovery of balance outstanding dues is initiated.
- In case of existing licensee having outstanding dues for over a month, whether Commercial Deptt. served a notice, besides intimating, to clear the dues along with interest on delayed payment within 15 days of receipt of such a notice.
- In case the entire outstanding dues are not cleared by such a defaulting licensee, his security deposits equal to the amount of outstanding dues including interest are encashed as per the terms and conditions of the agreement.
- Whether the Commercial Deptt. is taken appropriate action against parties defaulting in payment. The action may include; notice to the party for encashment of security deposit, recouping of security deposit and ultimately termination of the licence. The

action initiated \ completed in a frame time schedule and in such a manner that the defaulting licensees are not permitted to operate the contract beyond the period of their security deposits. Department of Finance is kept informed for all such actions taken by the Department of Commercial from time to time at each stage. Whether timely action is taken under PPE Act for recovery of outstanding dues \ eviction of un-authorized occupants.

27.17 Purchase Department

Books and Registers maintained

- Delegation of powers
- Indent register
- Purchase order \ work order files
- Tender files
- Correspondence \ customer files

Audit Checks

- Examine whether supplier empanelment is utilized prescribed purchase procedures are adhered to and purchases are made as per the delegated financial powers.
- Scrutinize tender procedure, evaluation of bids and award of work.
- Verify whether discounts are availed wherever possible.
- Review the internal control procedure for purchase of stores, raw materials etc.

27.18 Projects Division

Audit Checks

- Review the procedure for land acquisition, shortfall, and compensation claims pending in courts and delay occurred in implementing the project on account of failure to acquire the land.
- check if the project is technically and financially approved by Board, DPR as prepared by competent professionals etc.
- Review the contracts with consultants for expansion and new projects and verify whether payments to consultants are in accordance with terms of the contract.
- Review the contracts with suppliers of equipment for the erection of machinery and for civil work.

- Review expenditure incurred for new schemes and whether the schemes are progressing according to schedule.
- Review the basis for allocating common expenses between construction and production.

27.19 Civil Engineering Divisions

The following points may be seen:-

- Whether prescribed procedure for invitation and evaluation of tenders, award of contracts etc. followed?
- Whether works are started on the land for which the company holds a clear title?
- Whether proper accounts of materials, plant and equipment etc., issued to contractors are maintained and costs recovered as per contracts?
- Whether the final value of work differs from the estimates and if so, the reasons therefor?
- Whether there is an abnormal delay in completion of work and if so, whether penalties as per contract are recovered from the contractor?
- Whether proper accounts of receipts and issue of materials are maintained?
- Whether proper measurement books are maintained and whether the quantities executed are far in excess of the estimates?
- Whether any works is lying un-finished or abandoned?
- Whether contractor had to be paid increased rates due to failure of the management?
- Whether any works has proved in fructuous?
- Whether there is any double handling \ un-avoidable movement of stock.
- Whether escalation claimed is as per the contract provisions

Functional Areas and Periodicity

Functional Areas	Periodicity
Accounts on selection	Annual
Transaction	Annual
Regional Office, NAD, Chennai Dept. of CNS Dept. of Engg Dept. of Commercial Dept. of Land Dept. of F&A Dept. of Stores	Annual
Southern Regional Airports on selection	
Agatti Airport Bangalore Airport Calicut Airport Cochin Airport Coimbatore Airport Gulbarga Airport Hubli Airport Kancheepuram Airport Madurai Airport Mangalore Airport Pondicherry Airport Salem Airport Trichy Airport Tuticorin Airport Vellore Airport Trivandrum Airport	On Selection
International Airport Division Chennai Airport Dept. of Engg Dept. of Commercial Dept. of Land Dept. of F&A Dept. of Stores	Annual
Chennai Airport Project	Annual
Accounts Audit	Annual

CHAPTER 28

NATIONAL AVIATION COMPANY OF INDIA LIMITED

28.1 Introduction. National Aviation Company of India Ltd (NACIL) was incorporated under the Companies Act 1956 on 30 March 2007 and is owned by the Government of India. The Company was created to facilitate the merger of the two main state-owned airlines in India: Air India, with its subsidiary Air-India Express and Indian Airlines, together with its subsidiary Alliance Air. The company was renamed as *Air India Limited* on October 26, 2010. Once the merger is complete, the airline - which will continue to be called Air India - will continue to be headquartered in Mumbai.

Upon completion of the merger on 26 February 2011, there is now one primary airline, Air India, with two subsidiary carriers providing regional and low-cost, point-to-point services and a third subsidiary for cargo operations:

Air India

- Air India Express
- Air India Regional
- Air India Cargo

AIL carriers connect 93 destinations (60 domestic and 33 international) in 24 countries as of February 2011. Total fleet of 121 comprises 91 ownership, 8 under `sale and lease back` and 22 on `dry lease` basis

Its policies are framed and implemented by the Management and the Board of Directors of the Company. The Directors on the Board are appointed by the President of India Being a Central Public undertaking, its policies and activities are constantly under close scrutiny of the Press, Public and Parliament. Parliamentary Committees comprising Members of Parliament examine the Company and hold discussions on its functioning and performance from time to time apart from giving suggestions and recommendations relating to the activities of NACIL. The policies and activities of NACIL are, therefore, under constant scrutiny of the public through the above process.

NACIL, operating with the brand name of Air India, has commenced the induction of 43 new Airbus aircrafts A-319 \ 320 \ 321 and 50 new Boeing aircrafts B777-200ER, B777-300LR, and the B787-8 Dream liner. Total fleet strength is 121 comprising 27 wide body and

94 narrow body aircrafts. Out of this 121, 91 are owned, 8 are on `sale and lease back` and 22 are on `dry lease` basis. A new hub in Europe for intra-Europe and transatlantic operations is under implementation. Premium non-stop international flights will be Air India's focus overseas. The domestic network is being strengthened and streamlined for effective Hub & Spoke (H&S) operation to link the expanding network.

Seamless connectivity between the networks of Air India and alliance partners and enhancing the customer experience with Air India are the vital objectives. Technological innovations and best industry practices will be required at all times to achieve these goals.

NACIL is the national flag carrier of India and operates flights under the AI and IC Codes. AI coded flights cover a world-wide network of passenger and cargo services, mainly operated on long haul international routes covering markets in USA, Canada, UK, Europe, Middle East, Far East and South East Asia. IC coded flights cover passenger and cargo services operated on domestic and regional international routes, covering Gulf, Middle East, South Asia & South East Asia regions. Alliance Air, a wholly owned subsidiary of NACIL, operates domestic flights which also carry the IC code. AI Express (a LCC, another wholly owned subsidiary of NACIL) operates international services within Asia.

Financial crisis

Around 2006-2007, the airlines began showing signs of financial distress. The combined losses for Air India and Indian Airlines in 2006-07 were Rs 770 crore. After the merger of the airlines, this went up to Rs 7,200 crore by March 2009. This was followed by restructuring plans which are still in progress. In July 2009, SBI Capital Markets Ltd was appointed to prepare a road map for the recovery of the airline. The carrier sold three Airbus A300 and one Boeing 747-300M in March 2009 for \$ 18.75 million to survive the financial crunch

28.2 Objectives:

- To carry on business, in any part of the world as an airline and air transport and to provide air transport services and carry out all other forms of aerial work, whether on charter terms or otherwise, and to carry on any other trade or business or do anything which is calculated to facilitate or is auxiliary to or associated with such business.

- To buy, sell, manufacture, recondition, repair, alter, improve, manipulate, prepare for market, let and take on hire, and generally deal in all kinds of aircraft and other apparatus of every description capable of being flown or navigated in the air whether powered or not and plant, machinery apparatus, tools, utensils, materials, produce, substances, articles and things.
- To render and provide whether by itself or in association with other carriers all services and facilities as are necessary or desirable for the operation of air transport services in any part of the world including but not limited to maintenance, servicing, handling, operations, communications, security, cleaning and facilitation, passenger and cargo handling and storage services, cabin cleaning, flight handling and dispatch and training of personnel technical or otherwise.
- To buy, sell or otherwise deal in manufacture, own, repair maintain services, garage, and store, vehicles (whether commercial or otherwise and whether mechanically propelled or not) machinery, tools, apparatus, equipment requisite for or ancillary to the operation, maintenance, repairs and servicing of aircraft, as also for the maintenance, repairs and servicing of aircraft, as also for the maintenance of repairs and servicing such vehicles and machinery, implements, equipments, components, apparatus) and to deal in lubricants, fuels and all other things capable of being used with such aircraft, vehicles, machinery and equipment.
- To provide Courier and freighter services, directly or through handling agents, delivery agents, monitoring agencies and \ or franchises in India and \ or abroad.
- To provide for engine, maintenance and overhaul facilities of aircraft equipment and to render such services of an ancillary nature.
- To carry on business as a low cost carrier on all or any of its routes in addition to its full service operations.

28.3 Capital Structure

Indian Airlines Limited and Air India Limited have amalgamated into National Aviation Company of India Limited (also a Government of India Undertaking), and the legal process under the Companies Act, 1956 has been completed on 27th August 2007. The Authorized Share Capital of the Company is Rs.5000 crore and paid up capital was Rs. 945 crore as on 31.3.2010.

28.4 Organizational Set up

Chairman and Managing Director	Overall responsibility for the smooth, efficient & progressive functioning of the airline activities
Director (Personnel)-	All personnel and industrial relations matters, develop policies and frame guidelines on HR matters.
Director (Finance)-	All financial matters, review the financial policies and provide guidelines
SBU Head	Related Business Conceptualization & operational sing strategic plans for specific new business.
SBU Head – MRO (Airframe)	Planning and execution of Maintenance, Repairs & Overhaul of fleet.
SBU Head – MRO (Eng. & Components)	Planning and execution of Maintenance, Repairs & Overhaul of erstwhile fleet.
SBU Head – Cargo.	Planning and execution of Cargo and Ground Handling operations
Chief Vigilance Officer	All Vigilance matters

Norms set for the discharge of functions

Every year a Memorandum of Understanding used to be signed by the managements of erstwhile Indian Airlines \ Air India with the Ministry of Civil Aviation after discussions and finalization of the same by members of the expert task force constituted by the Department of Public Enterprises. This Memorandum of Understanding signed with the Government every year acts as norms for discharge of its functions. Since the merger of Indian Airlines Ltd. and Air India Ltd. into NACIL was completed on 27 August 2007, which is the effective date. An MOU is yet to be arrived at with Ministry of Civil Aviation.

Rules, Regulations, Instructions, Manuals & Records used for discharging functions

S.No.	Name of Deptt.	Name of Manual
1	Operations	Operations Manual
2	In Flight Services	Cabin Crew Manuals-Vol.I,II,III & IV, Procedure Manual, Flight Safety Manual, Service Procedures, First Aid Manual
3	Stores & Purchase	Stores & Purchases Manual, Procurement Procedures for Non-aircraft items (SAO 582 & 583)
4	Cargo	Cargo Operations Manual
5	Central Training Establishment	Training Manual
6	Air Safety	Air Safety Manual, Reference Book –Contingency Plan
7	Commercial	Customer Services Guidelines
8	HRD	Standing Orders, Service Regulations
9	Finance	1. Revenue Manual 2. Expenditure Manual 3. P.F. Regulations
10	Engineering	Quality Control Manual, Maintenance \ Systems Manuals, Civil Aviation Requirements (CAR 145), European Union (EASA 145), Federal Aviation requirements (FAR 145)
11	Internal Audit	Internal Audit Manual
12	Vigilance	Vigilance Manual
13	Properties & Facilities	Key to works
14	Information Technology	IT Manuals

A Statement of the Categories of Documents that are held by it or under its Control

- Memorandum and Articles of Association of the Company.
- Air Operators' License.
- Certificates of Registration for aircraft in the fleet of NACIL.

28.5 Internal Audit

In order to ensure an independent status to the Internal Audit Department, Executive Director (Internal Audit) reports directly to CMD and the heads of the Regional Audit Units report to the Executive Director (Internal Audit). The major objective of Internal Audit is to review the functioning of various departments \ activity centers and to assess the achievement of objectives and goals of each such activity. Each Department \ Activity centre is subjected to Performance-cum-Efficiency Audit Review once in three years. Audit scrutiny of preliminary Annual Accounts will be undertaken for each financial year and report submitted to the Head of Finance in each Region, Central Revenue Division and the Headquarters.

28.6 Information Available in Electronic Form

The database pertaining to computer-based applications is stored in the electronics form. It relates to passenger reservation, departure control information, frequent flyer details, management information, personnel information, financial accounting data and aircraft spares details.

Particulars of recipients of concessions, permits or authorization [(Section 4(1) b (xii)] (erstwhile Air India Limited)

The Company is presently offering the following concessions to its passengers:

(1) CANCER PATIENT CONCESSION

APPLICATION:

One way or return travel on Domestic Sectors in Economy Class- applicable between place of residence or the Airport nearest to the place of residence of the Cancer patient and the place of treatment where the Cancer Hospital \ Cancer Institute is located.

FARES:

45 % of the Normal Economy Class Basic Fare, taxes and Surcharges applicable.

DOCUMENTATION:

An Application from the Passenger stating that He \ She is proceeding for treatment of Cancer at a recognized Cancer Hospital or from such Cancer Hospital \ Institute to place of residence, supported by a Medical Certificate, is required. The Certificate may be issued by a Cancer Hospital or an Institute. However, in the case of a patient going for Cancer

treatment \ check-up for the first time from a place where there is no Cancer Hospital or Cancer Institute, the Station Managers of Air-India can accept a Certificate issued by a Local Hospital. Air-India Duty Manager \ Ticketing Counter Staff are empowered to authorize Cancer Patient Discount after satisfying themselves about the bonafide of the patient's travel.

ELIGIBILITY:

This Concession is available to only those persons who are Residents of India and are suffering from Cancer and are traveling for the purpose of Medical Check-up \ Treatment.

TICKETING CODE:

CP-55

(2) BLIND PERSONS DISCOUNT

APPLICATION:

All types of journeys in Economy Class on Domestic Sectors.

FARES:

45 % of the Normal Economy Class Basic Fare -taxes and Surcharges applicable.

DOCUMENTATION:

The Passenger is required to produce a Certificate to the effect that he \ she has lost total vision in both eyes. This Certificate may be issued by either an Eye Hospital or a Medical Practitioner not less than M.B.B.S. The Certificate can also be issued by the Head of an Institution for Blind recognized by the State \ Central Government.

ELIGIBILITY:

The discount is available only for those persons who are totally blind and who are residents of India.

TICKETING CODE:

BP-55.

(3) ARMED FORCES CONCESSION

APPLICATION:

All types of journeys in Economy Class on Domestic Sectors.

FARES:

45 % of the Normal Economy Class Basic Fare- taxes and Surcharges applicable.

DOCUMENTATION:

(a) These Concessional Tickets will be issued against an Armed Forces Concession Form after due verification by Air-India.

(b) Persons traveling against this Concessional Fare may be in possession of the following documents, which will be subject to check by the Staff at any stage of the journey.

(i) Armed Forces Identity Card for the Armed Forces Personnel and the Identity Card issued by the Unit Commandant to family members of the Military Personnel.

(ii) Part-II of the Armed Forces Concession Form.

It is mandatory for the Passengers to carry the Part-II of the Concession Form along with his Identity Card while traveling for the purpose of verification by Air-India Official at any stage of travel.

ELIGIBILITY:

(a) Active Military Personnel of Indian Armed Forces (Army, Navy and Air Force) and their family members traveling at their own expense.

(b) For the purpose of Armed Forces Concession, the family includes Spouse, dependent Children between 2 and 26 years of age and dependent Parents. Married children are not considered as part of the family.

Active Armed Forces personnel (Army, Navy or Air Force) on deputation are eligible for this Concession. Personnel of Coast Guards \ Indo Tibetan Border Police \ Border Security Force \ Central Industrial Security Force \ Central Reserve Police Force \ Territorial Army and any other Para Military Forces are not eligible for this Discount.

TICKETING CODE:

AFC-55.

(4A) SENIOR CITIZENS DISCOUNT

APPLICATION:

All types of journeys in Economy Class on Domestic Sectors.

FARES:

45 % of the Normal Economy Class Basic Fare. Taxes and Surcharges applicable.

DOCUMENTATION:

Senior Citizen's Discount will be offered on submission of the following documents:

(a) A photocopy of document certifying the Passenger's age \ date of birth e.g. School Leaving Certificate, Certificate from the Municipal Corporation, Passport, Certificate from Employer from Public Sector Undertakings or Government Organizations where the Senior Citizen was employed, Ration Card, Election Commission Card or Air-India Identity Card issued to Senior Citizens.

(b) A document confirming the Resident Status of the Senior Citizens.

(c) In case of Foreigners residing in India, details of the Resident permit.

(d) Two stamp size photographs.

(e) Application Form filled in duplicate as per the Format in Appendix 'A'. Station Manager \ Reservation Manager is authorized to approve any other document for 'Proof of Age' besides those listed in (a), if he feels otherwise satisfied. He may also, under exceptional circumstances, depending upon the merit of the case, use his discretion for granting Senior Citizen's Discount. AIR-INDIA will issue Identity Cards to the Senior Citizens free of cost when an application, filled in duplicate, in the format as per 'Appendix 'A' along with two stamp-size photographs and documents for proof of age and Resident status is submitted to an AIR-INDIA Office. Signature of the Senior Citizen on the 'Form' or on the 'Identity Card' issued for the grant of Senior Citizen Discount is not mandatory. Presence of the Senior Citizen for issuance of the Ticket or Identity Card will not be required so long as the photographs and the document for the 'Proof of Age' and Resident Status are submitted. Once the Identity Card is made 'Application Form' will not be required to be filled each time a ticket is purchased under Senior Citizen Discount. At the Time of check-in: the Identity Card or the Ticket Jacket having the photograph of the Senior Citizen will be checked and also the Boarding Pass issued to the Senior Citizen will be checked.

ELIGIBILITY:

FOR INDIANS

(a) Male Senior Citizens residing permanently in India and who have completed the age of 65 years on the date of commencement of journey.

(b) Female Senior Citizens residing permanently in India and who have completed the age of 63 years on the date of commencement of journey.

FOR FOREIGNERS

(a) Male Senior Citizens who are residing in India and holding resident permit and who have completed the age of 65 years on the date of commencement of journey.

(b) Female Senior Citizens who are residing in India and holding resident permit and who have completed the age of 63 years on the date of commencement of journey.

TICKETING CODE:

SCD-55.

(4B) SENIOR CITIZENS DISCOUNT

\ Air India offers Senior Citizens Discount for International journeys from India to Europe and USA in the Economy Class.

APPLICATION:

For return journeys in the Economy class during specified periods only.

FARES:

Approximately 20-23 % of the IATA level of Fares.

DOCUMENTATION:

Photocopy of the Passport to be attached to the flight coupon as proof of age.

ELIGIBILITY:

(a) Male Senior Citizens residing permanently in India and who have completed the age of 65 years on the date of commencement of journey.

(b) Female Senior Citizens residing permanently in India and who have completed the age of 63 years on the date of commencement of journey.

TICKETING CODE:

VCD6M \ GCD6M

PARTICULARS OF SPECIAL FARES – DOMESTIC (ON PERMANENT BASIS) (AS ON 29TH MAY, 2007) (erstwhile Indian Airlines)

- All Discounts unless and until specified otherwise, shall be applicable on erstwhile Indian Airlines Domestic Network on Economy Class INR Sector Fares only for travel by Economy Class.
- All Discounts are applicable on the Fare Component of INR Fares.
- In case of INR Fares, Fuel Surcharge and PSF are charged full.
- Special Fares – Domestic – applicable to Indians and Foreigners residing in India unless specified otherwise.
- No Special Fares \ Discounts are available on Flights operated by a Dornier aircraft.

CONCESSIONS

1 Armed Forces Discount (MIL-50) (Introduced since late sixties) Booking Class "M"
50 % discount offered to members of Indian Armed Forces (Army, Navy and Air Force) who are in active service and their family members travelling at their own expense. Armed Forces Concession Form attested by the Unit Commandant of the Armed Forces Personnel required to be submitted- Form available free of cost- ID Card of person making purchase of ticket to be verified at the time of issuance of ticket. ID card of the passenger travelling on this discount may be verified at any point of time.

2 Personnel of General \ Reserve Engineering Force (GML – 50) (Introduced prior to 1978) Booking Class “M”:

50 % discount offered to members of General Reserve Engineering Force who are in active service and their family members travelling at their own expense. Armed Forces Concession Form attested by the Unit Commandant of the Armed Forces Personnel required to be submitted ID card of person making purchase of ticket to be verified at the time of issuance of ticket. ID card of the passenger travelling on this discount may be verified at any point of time.

3 War Disabled Persons (YML – 75) (Introduced prior to 1978) Booking Class “M”

: W.e.f 1st February, 2001, concession increased to 75% from 50% for War Disabled Persons and 50% discount to their family members offered. Journey must commence or terminate at the permanent address \ nearest airport to the place of residence of the eligible passenger. Basis- list of disabled officials supplied by Army Headquarters. War Disabled Persons are required to submit an Application Form duly filled and verified by the Indian Airlines, Duty Officer.

4 Discount to War Widows (WML – 75) (Introduced prior to 1995) Booking Class “M”: W.e.f 1st February, 2001, concession increased to 75% from 50% for War Widows. Basis ID card issued by Army Headquarters. Revised prescribed application form to be filled by the passenger and duly verified by the Indian Airlines, Duty Manager.

5 Ex-Armed Force Personnel who are recipient of Bravery Award (Level I & II, i.e. Paramvir Chakra \ Ashoka Chakra and Mahavir Chakra \ Kirti Chakra) (XML – 75) (Introduced prior to 1978) Booking Class “M”: W.e.f 1st February, 2001, concession increased to 75% from 50% for Ex Armed Forces Personnel who are recipients of Bravery Award (level I and II). Revised prescribed application form to be filled by the passenger and duly verified by the Indian Airlines, Duty Manager.

6 Para Military Forces Discount

BSF \ ITBP \ CISF \ CRPF \ RPG \ NSG \ SSB \ Coast Guards \ Assam Rifles \ IB*Introduced w.e.f. 1st February, 2001 * (Introduced w.e.f. 24th April, 2001).(PML-50) Booking Class “M” : 50% Discount to Para Military forces who are in active service and their family members travelling at their own expense. Armed Forces Concession Form attested by the Unit Commandant of the Para Military Force Personnel required to be

submitted. ID card of person making purchase of ticket is to be verified at the time of issuance of ticket. ID card of the passenger travelling on this discount may be verified at any point of time.

7 Police Personnel –Recipients of Presidents Police Medal for Gallantry

: 75 % discount introduced w.e.f. 1st February, 2001.

Basis- Verification of the Identity Card. Application form prescribed by Indian Airlines

Police Medal for Gallantry .Introduced w.e.f. 1st February, 2001. (RPM – 75)

Booking Class “M”duly filled required to be submitted.

8 Recipients of Gallantry Awards – Civilians (Introduced w.e.f. 17.10.96) (GA – 75)

Booking Class “M”: W.e.f. 1st Feb, 2001.

75 % discount is offered to the Awardees of ‘Ashoka’ & ‘Kirti Chakra’. List supplied by Ministry of Home or on the Basis of the ID Card issued by Ministry of Home. Application form prescribed by Indian Airlines, duly filled required to be submitted.

9 Student Discount (SD – 50) Booking Class “M”:

50 % Discount on Normal sector and Point to Point fare. Initially was permitted on all types of journeys in Economy Class on domestic sectors. • W.e.f. 7th July, 2003 Student discount on domestic sectors modified. Travel permitted only from Place of Study to Home Town or v.v. 50 % discount on Normal sector and Point to Point fares for travel in Economy class. Student Discount form attested by the Head of the Educational Institution required to be submitted. Forms available free of cost. • With effect from 1st October, 2003 Student discount is also permitted for travel on flights operating from points in North East to Kolkata and v.v. when the sectors form a part of journey permitted i.e. from place of Study to Home Town.

Student Concession has also been permitted for journeys undertaken between:

- Kolkata-Chennai-Port Blair or v.v.provided it forms a part of journey between hometown and place of study.

- Delhi-Leh or v.v. provided it forms a part of the journey between hometown and `

The above relaxation is applicable w.e.f. 15th Jul’06 and until 15th Jul’07.

10 Senior Citizens Discount (Introduced w. e. f. 1.8.94) (SCD) Booking Class “M”:

50 % Discount on fare, to those Citizens, who have completed 65 years of age in the case of Male Passengers and (w.e.f. 29th August, 2000) 63 years of age in the case of female passengers on the date of commencement of journey. Proof of age and Resident Status and

Senior Citizens Concession form with Two Photographs or ID card issued to Senior Citizens by Indian Airlines required for issuance of ticket under this discount. •W.e.f. **7th July, 2003**, Senior Citizen Discount modified. Details of modification are as under:

- Only Indian Nationals residing in India are eligible for this discount.
- Only Round Trip \ Circle Trip journey permitted. One-way journey not permitted.
- Re-routing not permitted.
- Confirmed ticket to be purchased at least 7 days prior to departure.
- Minimum stay of 7 days at destination.
- In case of Circle Trip, minimum 7 days stay at each intermediate point.
- With effect from **1st October, 2003** the conditions of minimum seven days stay at destination in case of round trip journey and each intermediate point in case of circle trip journey has been reduced to minimum two nights stay in both types of journey.
- With effect from **4th April, 2005** the following modification have been made:
- The condition of purchase of confirmed tickets atleast 7 days prior departure is waived off. No time limit for purchase of confirmed tickets under Senior Citizen Concession.
- The condition of minimum two nights stay at destination \ intermediate point in case of Round Trip \ Circle trip journeys modified to minimum three nights stay at the destination \ intermediate point in case of Round Trip \ Circle trip journey. - All other conditions governing the application of Senior Citizens concession remain unchanged.
- With effect from 1st December 2006 the following modifications have been made:
- The existing condition of not permitting One Way journey is waived off. Henceforth, apart from Round Trip \ Circle Trip journey, **one way journey will also be permitted.**
- The existing condition of **minimum three nights stay** at destination \ intermediate point in case of Round Trip \ Circle trip journeys is waived off. **There will be no minimum stay requirement.** - The existing condition of not allowing the re-routing of tickets is also waived off.
- **Re-routing will now be permitted** on tickets issued under Senior Citizen concession.
- All other conditions governing the application of Senior Citizens concession remain unchanged.

11 Blind Persons Discount (BP – 50) (Introduced prior to 1978) Booking Class “M”

50% discount on Normal sector fare and Point to Point Fares. (Full PSF applicable). Certificate from an Eye Hospital, Head of an Institution for Blind recognized by Centre \ State Govt. or a Medical practitioner not less than MBBS stating that the passenger is completely Blind in both eyes is required to be submitted.

12 Cancer Patient Discount (CP – 50) (Introduced prior to 1978) Booking class “M”

: 50 % Discount on Normal sector fare and Point to Point fare (For travel between Place of Residence and Place of treatment only). (Full PSF applicable). For patients travelling in connection with the treatment only. Form certified by a Cancer Institute \ Hospital required to be submitted. In case a patient is going for the Cancer treatment \ Check up for the first time from a place where there is no Cancer Hospital \ Institution a certificate from local Hospital can be submitted.

13 Locomotor Disability Discount (Introduced on the direction of Supreme Court of India w.e.f. 30.01.99) (LD – 50) Booking Class “M”:

50 % discount on Normal sector fare and Point to Point Fare to Disabled Persons, suffering from 80 % & above Locomotor Disability- PSF payable in full. A certificate stating that the person is suffering from 80 % and above Locomotor disability is required to be submitted issued by the Medical Board of the Govt. Hospital or by the Chief District Medical officer posted at a place where the disabled ordinarily resides.

14 Stretcher Fare. Special Fare is offered to the Invalid passengers on Stretcher. (w.e.f. 26th November, 1999) SF – 4 Booking Class “Y”: 4 times the Normal Published Adult Fare Component (in INR \ USD) for carriage of Stretcher on all types of aircraft except on Dornier aircraft. On Dornier aircraft Fare for carriage of Stretcher is 3 times the Normal Published Adult Fare Component (in INR \ USD) One PSF charged. Medical Information Sheet (MEDIF) is required to be submitted duly filled, with signatures of the passenger or next of kin or escort and the attending physician. Documentation procedure modified w.e.f. 12th Oct, 2001.

ATR – 42 320 aircraft unable to accept carriage of Stretcher.

Fare for the Carriage of Stretcher from \ to Port Blair, Leh and Agatti (w.e.f. 29 August, 2000) SF : 1, Booking Class “M” Single Sector fare (in INR \ USD) is applicable for the Carriage of Stretcher from \ to Port Blair, Leh and Agatti. PSF is applicable. Medical Information Sheet (MEDIF) is required to be submitted duly filled, with signatures of the

passenger or next of kin or escort and the attending physician. Documentation procedure modified w.e.f. 12th Oct, 2001.

W.e.f. 15th May, 2007 the fare for carriage of invalid passenger on stretcher has been revised as under:-

For carriage on A-300 \ A320 \ A319 \ B737

Six times the normal published fare Component (INR \ USD) **for domestic sectors** instead of four times.

Six times **the normal published fare or special Fare approved by Hqrs under special marketing arrangements** for international sectors **instead of four times.**

For carriage on DO-228

Six times **the normal published fare Component (INR \ USD) instead of three times.**

Carriage of stretcher from \ to Port Blair, Agatti, Leh

Six times **Normal published fare instead of Normal single adult fare.**

Carriage of stretcher on ATR-42 not permitted. Ticketing Code - SF-6 instead of SF-4, SF-3 or SF-1 • All other conditions remain unchanged.

15 Concession to Sports Persons

Participating in National Sports Events: (SP-25) (Introduced prior to 1995) Booking Class "M": 25 % Discount on fare to Sports person hailing from the States in the North Eastern Region for travel between Calcutta and Guwahati on one hand and a Station within North-Eastern Region on the other hand. An application from the organizers of National Sports Events confirming the participation of the sport person in the National Sports Events is required.

16 Concession to Arjuna Awardees (AA-50) (Introduced w. e. f. 1st April, 2002) Booking Class "M" : 6 return tickets on 50 % discount offered to each Arjuna Awardee in a financial year i.e. from 1st April to 31st March, each year. One way and round trip journeys in Economy class on domestic services only, with journey commencing from any origin station and terminating at any single destination by the shortest route. Arjuna Awardees are required to present a photocopy of the Scroll \ Certificate conferring the Arjuna Award each time he \ she purchases a ticket, to Indian Airlines Booking Office. The Arjuna Awardees would also be required to fill the prescribed Indian Airlines form.

Audit Check:

- Check of expenditure to ensure that a general or special sanction exists, propriety and prudence have been observed and that the expenditure serves, directly or indirectly, the purposes intended by the company.
- Check of all revenues and other receipts to ensure that they have been collected and brought to account duly and promptly. Wherever possible, ensure that amount collected is not less than that due.
- Check assets and stores of all types to ensure that the material is ordered on a reasonable assessment of requirements that is correctly received and duly inspected; its receipt is properly recorded and is stored safely and issued only on proper authority. It has also to be checked that consumption of material is economical and serves the purposes and is not wasteful or extravagant.
- Check initial documents \ records and the accounts compiled are accurate and correctly portray the financial status of the Company.
- Check costing system and cost data produced to ensure that costs reported are accurate and valid for the purposes for which they are used.
- Check to ensure accuracy and validity, or any other data submitted to the management at different level, on which decisions taken affecting efficiency, financial stability or profitability.
- Review of the system of internal checks for each of the above matters to ensure adequacy and to eliminate obsolete or unnecessary checks or controls. The particular task is an essential and important part of all the functions mentioned earlier.
- Review of the system of financial control, including the budget, control of expenditure through the budget and other reports and returns to ensure that at all levels, the Executive Authority is, in fact, accountable for its decision and action.
- Review of the working of selected departments, units and functions to ensure that the department is implementing the plans, policies and tasks for which it is responsible in an economical and efficient manner; and
- Generally, to review all programmes, procedures and important decisions \ sanctions, and to suggest, if possible methods to avoid waste to add efficiency

and to eliminate unnecessary effort or expenditure and avoid under utilization of resources.

- Review the functioning of various departments' \ activity centers and to assess the achievement of objective and goals of each activity.
- Performance has to be further assessed against the various norms or yardstick laid down. In case no norms or yardsticks have been prescribed performance has to be judged from common sense point of view taking advantage of available data.
- It is also to be seen as to whether the activities have been functioning effectively for achieving goals and efficiently for achieving cost savings and contributing towards overall achievements of organizational objectives.

28.7 Functional Areas and Periodicity

Functional Areas	Periodicity
Accounts on selection	Annual
Transaction	
Cargo Department	On selection
Commercial Department Stations Bangalore Bachin Bivandrum Bichy Balicut Madurai Coimbatore Chennai	On selection
Engineering Department	On selection
Finance Department including Internal Audit Department	On selection
Ground Support Department	On selection
Personnel Department	On selection
Stores & Purchases Department	On selection
Civil Engineering Department	On selection
Light Safety Department	On selection

Flight Services Department	On selection
Medical Department	On selection
Operation Department	On selection
Public Relation Department	On selection
Security Department	On selection

CHAPTER 29

Salem Steel Plant

29.1 Introduction

Salem Steel Plant, a special steels unit of Steel Authority of India Ltd. was commissioned on 13.09.1981 and pioneered the supply of wider width stainless steel sheets \ coils in India. The plant can produce austenitic, ferric, martensitic and low-nickel stainless steel in the form of coils and sheets with an installed capacity of 70,000 tonnes \ year in Cold Rolling Mill and 1,86,000 tonnes \ year in Hot Rolling Mill. In addition, the plant has country's first top-of-the-line stainless steel blanking facility with a capacity of 3,600 tonnes \ year of coin blanks and utility blanks \ circles. The plant has two liaison offices in New Delhi and Chennai respectively. Its products are marketed through a nationwide network with Branch Sales Offices in Ahmadabad, Coimbatore, Bangalore, Hyderabad, Baroda, Kochi, Chennai, Kolkata, Mumbai, New Delhi and Pune.

29.2 Product Mix

PRODUCT-MIX items	TPA
Cold rolled stainless steel flat product (Coils \ Sheets \ Blanks)	65000
Hot rolled stainless steel \ carbon steel flat product (Coils \ Sheets)	110000
Total Saleable Steel	175000

29.3 Facilities & Capacity

Area	Major Facilities	Products	Capacity \ TPA
Hot Rolling Mill	<ul style="list-style-type: none">• Walking Beam Re-heating Furnace• Roughing Mill• Steckel Mill• Down Coiler• Roll Shop	Hot rolled Stainless Steel \ Carbon Steel Coils	186000
Rolling Mill	<ul style="list-style-type: none">• Coil Build up Line• Bell Annealing Furnaces – 3 no.(with 8 bases)• Annealing & Pickling Lines – 2 no.	Cold Rolled Stainless Steel Coils \ Sheets Hot Rolled	65000

Blanking Line	• 20-High Sendzimir Cold Rolling Mills – 2 no.	Annealed and Pickled Stainless Steel Coils \	5000
	• Roll Shop	Sheets	
	• Strip Grinding Line		
	• Skin Pass Mill		
	• Shearing Line		
	• Slitting Line		
	• Blanking Press	Cold Rolled	3600
	• Rimming Machine	Stainless Steel Coin	
	• Annealing Furnace	Blanks \ Utility	
	• Pickling and Polishing Machines	blanks	
• Counting Machines			

The plant is facilitated with Hot Rolling Mill which can roll both stainless and carbon steels and the mill cater mainly to the input needs of stainless steel coils for the cold rolling mills. Special grades of carbon steels other than structural steels are also rolled from the facility includes weathering steels, high strength low alloy steels, etc., which are extensively used in industrial sectors.

Hot Rolling Mill complex is equipped with walking beam reheating furnace, primary descaler, 4-hi reversing roughing mill, 4-high reversing Steckel Mill, down coiler, laminar cooling and roll grinding machines, procured from world renowned suppliers. The Steckel Mill, the mother unit of hot rolling with level-2 automation is provided with hydraulic gauge setting and automatic gauge control. The continuously variable crown (CVC) controls the profile and flatness by roll shifting and work roll bending system provide additional fine control of flatness of the strip.

Cold Rolling Mill complex is equipped with the most modern stainless steel production lines, sourced from leading manufacturers of the world. Coil build up line, bell anneal furnaces continuous annealing and pickling lines, Sendzimer mills, skin pass mill, strip grinding line, slitting and shearing lines to produce coils \ sheets with precise dimensional tolerance and flatness with superior metallurgical characteristics.

Ferric and martensitic stainless steel are annealed \ softened at bell annealing furnaces and austenitic stainless steel is annealed \ softened and descaled in continuous annealing and pickling lines using Ruthner neutral electrolytic pickling process and mixed acid pickling for superior surface finish. The coils are rolled in 20-high computerized Sendzimer mills to required dimensional tolerances. A 2-high skin pass mill with elongation control and

constant hydraulic roll force system ensures a product of bright finish and high flatness. A shearing line with precision roller levelers, electronic flying shear and vacuum piler facilitates defect-free piling of the leveled cut sheets. Coils of narrow width and smaller weight are produced by a precision slitting line equipped with latest features like in feed car, grip feed device, tension pad and interchangeable slitters.

The shearing and slitting lines have online continuous marking system to make the products customer-friendly. Salem Steel Plant's cold rolling mill complex also includes a re-squaring shear, a recoiling line, a packing line for slit products and wider coils.

In addition to the common No1, 2D and 2B finishes, a wide range of finishes including No.3, No.4, No.8 (mirror) and special finishes like Moon Rock, Chequered, Honeykom, Macromatt, Aquiline, Fronds, Mystique, Linen and Barbeque finishes are also produced as per requirement.

29.4 Expansion Plan

Expansion and modernization of Salem Steel Plant is presently on. The plan envisages installation of Steel Melting and Continuous Casting facilities to produce 1,80,000 tonnes of slabs along with expansion of Cold Rolling Mill complex, enhancing the capacity of Cold Rolled Stainless Steel Products from 65,000 TPA to 1,46,000 TPA and an additional Roll Grinding Machine for Hot Rolling Mill for increasing production to 3,64,000 TPA

29.5 Organizational set up

The affairs of the Plant are managed by the Executive Director, assisted by General Manager (Marketing) and General Manger (Finance). The Plants is having 319 Executives and 1023 Non-Executives under various departments.

29.6 Budgetary Control

The Plant operates a system of budgetary control. The detailed budgets proposed by the Plant are approved by the Corporate Office of SAIL, to whom variances are periodically reported.

29.7 Costing System

The Company is maintaining cost records. The Cost data compiled is used as part of MIS in decision making process.

29.8 Internal Audit

The Internal Audit Department of SSP, head by a DGM reports to Executive Director (IA) of SAIL Internal Audit Department has two Executives with technical background and three Executives with financial background to facilitate audit in all aspects. The Internal Audit Department conducts audit of various departments both in technical and financial \ commercial areas. The scope of coverage is such that the Purchase and sales performance audited every year and other departments are audited once in three years. The Reports of audit findings are submitted to Executive Director (IA) Corporate office.

Procedure followed in the decision making process including channels of supervision and accountability

A) As per the Plant's Delegation of Powers

B) Procedure Orders

29.9 The rules, regulations, instructions, manuals and records, held or under its control or used by its employees for discharging its function

- Standing orders for non executives
- Purchase \ Contract Manual (SAIL)
- Personnel Manual (SAIL)
- Accounts Manual (SAIL)
- Vigilance Manual (SAIL)

29.10 Production

Books and Registers maintained

- Daily and monthly production reports and Performance Review Reports
- Register of issues \ receipts for raw material
- Register showing consumption of raw material
- Statement of downtime analysis

29.11 Audit Checks

i) Production

- Ascertain the designed capacity and budgeted \ actual production fixed for each plant and compare with actuals from the daily \ monthly reports to attempt a variance analysis on capacity utilization.
- Review the working of instrumentation system and the method of ascertaining the quantum of output.
- Verify whether there is any bottleneck in bagging and shipping plant.
- Consumption of raw materials and utilities like power, fuel & water. Comparison with norms & reasons for excess consumption
- Verify maintenance expenses and compare with norms and budgets.
- Breakdown of machinery & frequency \ reasons of breakdowns to be analysed
- Scrutiny of the contracts for civil & mechanical works in production department – Check the completion schedule, payment of liquidated damages, if any.
- Review of Daily Production Report (DPR) & Monthly Reports
- Check actual consumption of stores and spares data from monthly production reports and how the inputs are recorded for consumption and point out the deficiencies, if any
- Input \ output ratios for all products to be analysed
- Expenses on R&D to be checked
- Cost reduction measures to be checked & effectiveness ensured
- Check whether insurance policies have been taken adequacy of covering \ guarding the plant and machinery, loss of profit etc. whether renewal date is adhered to, claims are lodged in time and settled as per the policy terms etc. to be reviewed

Consumption

- Check actual consumption data from monthly production reports to analyze deficiency, if any.
- Review the working of the instruments in the plant for recording inputs and other consumables.
- Compare the actual consumption with the design \ budgeted and ascertain the reasons for variation.
- apply similar checks done for production on consumption also

Shutdown Analysis

- Review the downtime analysis with the data from the machine log books and other production records.
- Analyze the nature of shutdowns and examine the nature \ frequency of such shutdowns. and check if the same could have been avoided with proper planning or preventive maintenance
- Analyze the controllable \ uncontrollable nature and costs of shutdowns.
- Find out if alternative mechanism \ stage-wise shutdowns could be more efficient

(ii) Purchase Department

Books and Registers maintained

- Delegation of powers
- Indent register
- Suppliers empanelment
- Tender files
- Purchase order \ work order files
- Correspondence files relating to purchase orders

Audit Checks

- Examine whether prescribed purchase procedures are adhered to and purchases are made as per the delegated financial powers.
- Scrutinize tender procedure, evaluation of bids and award of work.
- Verify whether discounts are availed wherever possible.
- Review the internal control procedure for purchase of stores, raw materials etc.
- System of generating indents is always preceded by justification for procurement

(iii) Projects

Audit Checks

- Review the procedure for land acquisition, shortfall, and compensation claims pending in courts and delay occurred in implementing the project on account of failure to acquire the land in time.

- check if the project is technically and financially approved by Board, DPR is prepared by competent professionals etc.
- Review the contracts with consultants for expansion and new projects and verify whether payments to consultants are in accordance with terms of the contract.
- Review the contracts with suppliers of equipment for the erection of machinery and for civil work.
- Review expenditure incurred for new schemes and check if progress is according to schedule.
- Review the basis for allocating common expenses between construction and production.

(iv) Stores Department

Books and Registers maintained

- Register for receipts and issues of stores
- Cardex for individual items
- Priced Stores Ledger
- Register for surplus stores, non-moving \ slow moving and obsolete items
- Scrap disposal

Audit Checks

- Check that all purchases are effected only against specific indents from designated authorities
- Selection of suppliers against quotations tenders etc., to be scrutinised to ensure economy in purchases.
- Correlate Suppliers Bills with Purchase Orders Good Received Vouchers and Security Passes to ensure receipt of materials and prices.
- Check Priced Stores Ledger with reference to Goods Received Vouchers and Bills.
- Check Closing Balances with reference to Physical Verification Report.
- Check the periodicity of physical verification and its adequacy for this industry

(v) **Workshop**

Books and Registers maintained

- Work order register
- Completion Report file
- Monthly man-power statement
- Overtime register
- Contract job register
- log books

Audit Checks

- Review utilization of man-power, materials, and equipments.
- Review private job \ contract job orders and see that the expenditure incurred is fully recovered from the respective parties.
- Review overtime payment register to check whether payments are justified and as per the norms fixed
- Check log books to assess machine utilizations.\ downtimes and cost sheets price built up

(vii) **Finance Department**

Books and Registers maintained

- Cash and Bank vouchers, Bank Reconciliation Statement and interest account
- Pay roll
- Income Tax, Sales Tax assessment register
- Budgetary control register
- Cost sheet
- RG 23A register of inputs for MODVAT benefit claimed, gate passes, returns on use of raw material and goods manufactured
- Fixed assets register
- TA, LTC, Medical Bills, Festival Advance, Motor Car \ Cycle \ Scooter Advance with sanctions, agreement, surety bonds etc.
- Correspondence with clients, BGs, FDs other financial instruments

Audit Checks

- Verify total budget sanction for each item of expenditure.
- Examine whether payments to suppliers are settled as per Purchase Order \ Work Order conditions and necessary records are maintained.
- Examine whether measurement books are verified for arithmetical accuracy.
- Review cash \ bank receipts and payments.
- recoveries of LDs other statutory levies
- Verify all accounts and advances with relevant vouchers

29.12 Functional Areas and Periodicity

Functional Areas	sPeriodicity
Accounts on selection	Annual
Transaction on selection	Annual

CHAPTER 30

BHARAT HEAVY ELECTRICALS LIMITED

30.1 INTRODUCTION

Bharat Heavy Electricals Limited (BHEL) was incorporated as a Government Company under the Companies Act, 1956 in November, 1964 with an authorised share capital of Rs.40 crore. Initially the Company was set up to take over the management and control of three factories which were then managed by Heavy Electricals (India) Limited i.e. (i) Heavy Electrical Plant, Hardwar, (ii) Heavy Power Equipment Plant, Hyderabad and (iii) High Pressure Boiler Plant, Tamil Nadu. The Company now has 14 manufacturing divisions, 4 Power Sector Regional Centre's, over 100 project sites, 8 service centers and 18 Regional offices.

Company is engaged in the design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy, viz. Power, Transmission, Industry, Transportation, Renewable Energy, Oil & Gas and Defence. Company has 15 manufacturing divisions, two repair units, four regional offices, eight service centres and 15 regional centres and currently operate at more than 150 project sites across India and abroad. BHEL places strong emphasis on innovation and creative development of new technologies. Its Research and Development (R&D) efforts are aimed not only at improving the performance and efficiency of existing products, but also at using state-of-the-art technologies and processes to develop new products.

It has acquired ISO 9000 Certification and has concepts of Total Quality Management. It has been chosen as one of the 'Navratna' PSEs and employs around 46,740 employees. BHEL has been exporting its power and industry segment products and services for approximately 40 years to more than 70 countries. BHEL had cumulatively installed capacity of over 8,500 MW outside of India in 21 countries, including Malaysia, Iraq, and UAE, Egypt and New Zealand and its physical exports range from turnkey projects to after sales services.

30.2 OBJECTIVES

Objectives of the Company as part of Strategic Plan 2007, in the form of Vision, Mission and Values statements, were adopted by the Board of Directors in October 2002. These are as follows:

Vision

A world class engineering enterprise committed to enhancing stake-holder status.

Mission

To be an Indian multi-national engineering enterprise providing total business solutions through quality products, systems & services in the field of energy, industry, transportation, infrastructure and other potential areas

Values

- Zeal to excel and zest for change
- Integrity and fairness in all matters
- Respect for dignity and potential of individuals
- Strict adherence to commitments
- Ensure speed of response
- Foster learning, creativity and team-work
- Loyalty and pride in the Company

30.3 ORGANISATIONAL SET-UP

The management of the Company vests with the Board of Directors. The Company is headed by a Chairman-cum-Managing Director. There are five functional Directors to assist him in the areas of Finance, Human Resources, Power, Engineering and Research & Development and Industrial System and Products. In addition, there are fifteen executive directors and nine Group General Managers who either assist the directors in various assignments or look after manufacturing plants etc. Detailed organizational set up is given in Annexure A.

30.4 CAPITAL STRUCTURE

Initially, the Company was incorporated with an authorised capital of Rs.40 crore which was subsequently raised to Rs.2000.00 crore. The issued and paid-up capital was Rs.489.52 crore and GOI is holding 67.72 % as on 31st March 2011.

30.5 BUSINESS SECTORS

The Company's operations are organized around the following three business sectors, namely Power, Industry including Transportation, Telecommunication and Renewable Energy and International Operations.

(A) POWER SECTOR

(i) Generation

Power Generation Sector comprises thermal, Nuclear, gas and hydro power plant business. BHEL supplied sets account for nearly 65% of the total installed capacity in the country. The Company has turnkey capabilities for executing power projects from concept to commissioning. It possesses the technology and capability to produce thermal sets upto 1000 MW unit rating and gas turbine-generator sets of upto 240 MW unit rating. Cogeneration and Combined-Cycle Plants have been introduced to achieve higher plant efficiencies.

(ii) Power Sector Regions

The Company in its capacity as main supplier of the power plant equipment has to deal with State Electricity Boards and other customers. For this purpose, it has four Regional units viz. Northern Region-New Delhi (PS-NR), Western Region-Nagpur (PS-WR), Eastern Region-Calcutta (PS-ER) and Southern Region-Madras (PSSR) for the erection and commissioning of Thermal, Hydro and Nuclear Electric Generating Sets. These regional units were created to facilitate:

- strong liaison with customers in the respective regions in connection with the Power Sector business;
- exploration in the regions of the vast opportunities available in the areas of supply of spares, providing services and renovation of TG sets; and
- exploration of the opportunities of retrofitting and life-extension projects relating to power plant and equipments in the regions.

(iii) Power Sector-Marketing

The Power Sector-Marketing group (PSM) earlier functioning in the name of Power Sector – Commercial Management was set up in October, 1975. It is the nodal agency for booking orders for utility sets and initial spares in respect of thermal, hydro, nuclear and gas based combined cycle projects manufactured in BHEL plants located at different parts of the

country. Customers get all their problems pertaining to the contract resolved through PSM. Present audit, however, was confined to thermal, nuclear and gas based projects.

Following are the main functions of power sector commercial management:-

- To develop market for power sets.
- Procurement of tender documents.
- Distribution of tender documents to participating divisions viz. manufacturing unit, power sector regions and project engineering management.
- Contracting division obtain approval from competent authority for submission of offer and submit to the customer.
- Obtain order from customer and distribute the same to the participating divisions through an Internal work order and monitors billings by units for realisation of payments.
- Liaise with customers and manufacturing \ erection units of BHEL.
- To solve disputes over the matters of principles and interpretation of contract.
- Follow up for release of payments towards supply and erection work.
- On completion of all contractual obligations and realisation of final payment, the contract is closed.

Power Sector Marketing is headed by the Executive Director who is assisted by three GMs and Eight AGMs.

(iv) Project Engineering Management (PEM)

PEM is essentially a design, engineering and procurement division. It is responsible for procurement of bought out items (Balance of plant) required by various manufacturing units. It is also engaged in preparation of proposal engineering, contract engineering of turnkey and non-turnkey coal based as well as gas based power plants. The functions of the department are detailed below:

- Floating of tenders and placement of orders co-ordination between suppliers of equipment and various agencies in the Company
- Looking after import \ export formalities.
- Evaluation and short listing of vendor of different equipment and system

- Review of performance of various suppliers from time to time with regard to their quality and delivery schedule.
- Providing technical help and guidance to suppliers, as and when required for improving quality and design.

(v) Transmission & Distribution

The Company supplies a wide range of transmission products and systems of up to 400 KV class. These include high-voltage power & distribution transformers, instrument transformers, dry-type transformers, SF₆ switchgear, capacitors and insulators, etc. The Company undertakes `turnkey delivery` of electric substations up to 400 KV level, series compensation systems (for increasing power transfer capability of transmission lines and improving system stability and voltage regulation), shunt compensation systems (for power factor and voltage improvement) and HVDC systems (for economic transfer of bulk power). The Company has indigenously developed state-of-the-art controlled shunt reactor (for reactive power management on long transmission lines).

(B) INDUSTRY SECTOR

(i) Industries

The Company is a major contributor of equipment and systems to industries like cement, fertilizer, refineries, petrochemical, steel, paper etc. The range of systems & equipment supplied includes captive power plants, high-speed industrial drive turbines, industrial boilers and auxiliaries, waste heat recovery boilers, gas turbines, heat exchangers and pressure vessels, centrifugal compressors, electrical machines, pumps, valves, seamless steel tubes and process controls.

BHEL is a major producer of large-size thyristor devices. It also supplies digital distributed control systems for process industries and control & instrumentation systems for power plant and industrial applications. It has the singular capability in the country to make simulators for power plants, defence and other applications.

The Company has commenced manufacture of large Desalination Plants to help augment the supply of drinking water to people.

(ii) Transportation

The Company is involved in the development, design, engineering, marketing, production, installation and maintenance and after-sales service of rolling stock and traction propulsion systems. In the area of rolling stock, BHEL manufactures electric locomotives up to 5000 HP, diesel electric locomotives from 350 HP to 3100 HP, both for mainline and

shunting duty applications. In the area of urban transportation systems, the Company is geared up for turnkey execution of electric trolley bus systems, light rail systems, etc. BHEL is also diversifying into the area of port handling equipment and pipelines transportation system.

(iii) Telecommunication

The Company also caters to Telecommunication sector by way of small, medium and large switching systems.

(iv) Renewable Energy

The Company offers technologies for exploiting non-conventional and renewable sources of energy through wind electric generators, solar photovoltaic systems, solar heating systems, solar lanterns and battery-powered road vehicles. The Company has taken up R&D efforts for development of multi-junction amorphous silicon solar cells and fuel cells based systems.

(C) OTHER BUSINESS OPERATIONS

(i) Oil and Gas

The Company is a major contributor to the Oil and Gas sector industry in the country. Its product range for this sector includes Deep Drilling Oil Rigs, Mobile Rigs, Work Over Rigs, Well Heads and X-Mas Trees (of up to 10000 psi ratings), Choke and Kill Manifolds, Full Bore Gate Valves, Mud Valves, Mudline Suspension System, Casting Support Stem, Sub-Sea Well Heads, Block Valves, Seamless Pipes, Motors, Compressors, Heat Exchanges, etc. The Company is the single largest supplier of Well Heads, X-Mas Trees and Oil Rigs to ONGC and OIL.

(ii) Research and Development

In line with the Country's Policy of reducing excessive dependence on Imported Technology and knowhow and to ensure rapid indigenous Development, the Company established "Corporate Research and Development" complex with an initial capital investment of Rs.17.5 crore in a 140 acre campus situated at Vikshnagar, Hyderabad and grew into a fully fledged R & D Centre within a period of four years. The long term and short term objectives of the R & D Division as approved (September 1973) by the Board are:

Long Term Objectives

- Development of Larger size power plants e.g. boilers, prime-movers, generators, transformers etc.

- Organisation of research in future technologies areas e.g. super conductivity, fuel cells etc.

Short Term Objectives

- Standardization of equipment design including components, interchangeability and optimization of design capability and resources.
- Improvement of existing product design for better utilization of materials
- Indigenous development of imported raw materials and components.

A separate unit viz. Centre of Technology (COTT) was established in January 1984 to commercialize the products developed as a result of Research and Development.

Some of the on-going development and demonstration projects include: Controlled Shunt Reactors (CSR) and Performance Analysis, Diagnostics and Optimization (PADO) package for power plants. The Company is also engaged in research in futuristic areas such as application of superconducting materials in power generation and industry, and fuel cells.

30.6 PRODUCT PROFILE-LOCATION-WISE

At present the Company has fourteen manufacturing units with a very diverse product profile as detailed below:

	Manufacturing units	Products manufactured
1.	Bhopal Unit	Stead and water turbines, switchgear, transformers etc.
2.	Jhansi Unit	AC Locos, Diesel shunters, transformers etc.
3.	Heavy Electrical Equipment Plant, Hardwar	Hydro sets, turbo sets, electrical machines, Gas turbines, etc.
4.	Central Foundry Forge Plant, Hardwar	Steel castings and forgings etc.
5.	High Pressure Boiler Plant, Tiruchi	Boilers, valves, seamless steel tubes etc.
6.	Boiler Auxiliaries Plant, Ranipet	Boiler auxiliaries, Wind mill
7.	Heavy Power Equipment Plant, Hyderabad	Power generating sets, turbo sets, oil rigs, gas turbines, compressors

8.	Industrial systems group, Bangalore	Motors, control equipment cubicles etc.
9.	Electronics Division, Bangalore	Energy and water meters, PV panels etc.
10.	Electro Porcelain Division, Bangalore	Insulators and bushings, ceramic liners.
11.	Insulator Plant, Jagdishpur	Disc insulators
12.	Industrial Valves Plant, Goindwal	Industrial valves
13.	Component Fabrication Plant, Rudrapur	Windmills, solar water heater system
14.	Electronics Systems Division, Bangalore	Electronic systems

PRODUCT RANGE

THERMAL POWER PLANTS

- Steam turbines and generators of up to 500 MW capacity for utility and combined-cycle applications; capability to manufacture steam turbines with super critical steam cycle parameters and matching generator up to 1000 MW unit size.
- Steam turbines for CPP applications; capability to manufacture condensing, extraction, back pressure, injection or any combination of these types.

GAS BASED POWER PLANTS

- Gas turbines of up to 260 MW (ISO) rating.
- Gas turbine based co-generation and combined-cycle systems for industry and utility applications.

HYDRO POWER PLANTS

- Custom-built conventional hydro turbines of Kaplan, Francis and Pelton types with matching generators, pump turbines with matching motor-generators.
- Mini \ micro hydro sets.
- Spherical, butterfly and rotary valves and auxiliaries for hydro station

DG POWER PLANTS

HSD, LDO, FO, LSHS, natural-gas \ biogas based diesel power plants, unit rating up to 20 MW and voltage up to 11 kV, for emergency, peaking as well as base load operations on turnkey basis.

INDUSTRIAL SETS

- Industrial turbo-sets of ratings from 1.5 to 120MW.
- Gas turbines land matching generators ranging from 3 to 260MW (ISO) rating.
- Industrial stream turbines and gas turbines for drive applications and co-generation applications.

BOILERS

- Steam generators for utilities, ranging from 30 to 500MW capacity, using coal, lignite, oil, natural gas or a combination of these fuels: capability to manufacture boilers with super critical parameters up to 1000 MW unit size.
- Steam generators for industrial applications, ranging from 40 to 450t \ hour capacity using coal, natural gas, industrial gases, biomass, lignite, oil, bagasse or a combination of these fuels.
- Pulverized fuel fired boilers.
- Stoker boilers.
- Circulating fluidized bed combustion boilers.
- Waste heat recovery boilers.
- Chemical recovery boilers for paper industry, ranging from capacity of 100 to 1000 t \ day of dry solids Pressure vessels.

BOILER AUXILIARIES

Fan

- Axial reaction fans of single stage and double stage for clean air application, with capacity ranging from 25 to 800m³ \ s and pressure ranging from 120 to 1,480 m of gas column.
- Axial impulse fans for both clean air and flue gas applications, with capacity ranging from 7 to 600m³ \ s and pressure up to 700 m of gas column.
- Single and double-suction radial fans for clean air and dust-laden hot gases applications up to 400°C, with capacity ranging from 4 to 600m³ \ s and pressure ranging from 150 to 1,800 m of gas column.

Air-Pre-heaters

- Ljungstrom rotary regenerative air-pre-heaters for boiler and process furnaces
- Large regenerative air-preheaters for utilities of capacity up to 1000 MW.

Gravimetric Feeders

Pulverizes

- Bowl mills of slow and medium speed of capacity up to 100 t \ hour.
- Tube mills for pulverizing low-grade coal with high-ash content.

Pulse Jet and Reverse Air Type Fabric Filters (Bag Filters)

Electrostatic Precipitators

- Electrostatic precipitators of any capacity with efficiency up to 99.9% for utility and industrial applications.

Mechanical Separators

Soot Blowers

- Long retractable soot blowers (travel up to 12.2m), wall deslaggers, rotary blowers and temperature probes and related control panels operating on pneumatic, electric or manual mode.
- Swivel arm type soot blowers for regenerative air-preheaters.

Valves

- High-pressure and low-pressure bypass valves for utilities.
- High and medium-pressure valves cast and forged steel valves of gate, globe, non-return (swing-check and piston lift-check) types for steam, and oil and gas duties up to 600 mm diameter, 250 kg \ cm² pressure and 540oC temperature.
- High-capacity safety valves and automatic electrical operated pressure relief valves for set pressure up to 200 kg \ cm² and temperature up to 550oC.
- Safety relief valves for applications in power, process and other industries for set pressure up to 175 kg \ cm² and temperature up to 565oC.
- Piping Systems, Constant Load Hangers, Clamp and Hanger components, variable spring hangers for power stations upto 850 MW capacities, combined cycle plants, industrial boilers and process industries.

HEAT EXCHANGERS AND PRESSURE VESSELS

- CS \ AS \ SS \ Non-ferrous shell and tube heat exchangers and pressure vessels.
- Air-cooled heat exchangers.
- Surface condensers.
- Steam jet air ejectors.
- Columns.

- Reactors, drums.
- LPG \ propane storage bullets.
- LPG \ propane store mounded vessels.
- Feed water heaters.

PUMPS

- Pumps for various applications to suit utilities up to a capacity of 660 MW.
- Boiler feed pumps (motor or steam turbine driven).
- Boiler feed booster pumps.
- Condensate pumps.
- Circulating water pumps.
- Emergency oil pumps.
- Lubricating oil pumps
- Standby oil pumps

POWER STATION CONTROL EQUIPMENT

- Microprocessor-based distributed digital control systems.
- Data acquisition systems.
- Man-machine interface.
- Sub-station controls with SCADA.
- Static excitation equipment \ automatic voltage
- e regulator.
- El Turbine supervisory system and control.
- Furnaces safeguard supervisory systems.
- Controls for electrostatic precipitators.
- Controls for HP \ LP bypass valves

SWITCHGEARS

- Switchgear of the various types for indoor and outdoor applications and voltage ratings up to 400 kV.
- Minimum oil circuit breakers (66K – 132kV).
- SF6 circuit breakers (132 kV – 400 kV).
- Vacuum circuit breakers (3.3 kV – 33 kV).
- Gas insulated switchgears (36 kV).

BUS DUCTS

- Bus-ducts with associated equipment to suit generator power output of utilities of up to 500 MW capacity

TRANSFORMERS

- Power transformers for voltage up to 400 kV.
- HVDC transformers and reactors up to + 500 kV rating.
- Series and shunt reactors of up to 400 kV rating.
- Instrument transformers:
- Current transformers up to 400 kV.
- Electro-magnetic voltage transformers up to 220 kV.
- Capacitor voltage transformers up to 400 kV.
- Cast resin dry type transformers up to 10 MVA 33 kV.
- Special transformers: earthing; furnace; rectifier; electrostatic precipitator; freight loco and AC EMU and traction transformers.

INSULATORS

High-Tension Ceramic Insulators.

- Disc \ suspension insulators for AC \ DC applications, ranging from 45 to 400 kn electro-mechanical strength, for clean and pollute atmospheres.
- Pin insulators of up to 33 kV.
- Post insulators suitable for applications of up to 6 units.
- Hollow porcelains of up to 400 kV.
- Solid core insulators of 25 kV rating (both porcelain and hybrid) for railways.
- Disc insulators for 800 kV AC and HVDC transmission lines (BHEL is the first Indian manufacturer to supply such insulators).

CAPACITORS

- Power capacitors for industrial and power systems of up to 250 kVAr rating for application up to 400 kV.
- Coupling \ CVT capacitors for voltages up to 400 kV.
- Low Tension Thyristor Switched Capacitors (LTTSC) for dynamic power factor correction

ENERGY METERS

- Single Phase, Poly Phase and Special-purpose electro-mechanical and electrical meters.

30.7 CORPORATE OFFICE

The Registered \ Corporate office of the Company is located at Sirifort Asiad Village, New Delhi. The activities of Corporate Office are managed by five functional Directors. The distribution of work amongst the different Directors is given below:-

1. **Finance:** Finance Department is mainly responsible to prepare budget estimates, to keep control on the expenditure vis-à-vis Budget Estimates of all the units, to have proper cash management, to have a system to proper Internal Control on the working of the Company through Internal Audit.
2. **Personnel:** This department is primarily responsible to prepare Manpower Budget Estimates, convey sanction to all the units, to have a proper control on the manpower deployed by the units against the sanctioned strength, to keep a close watch on Industrial relations etc.
3. **Power:** Power Department is primarily responsible to prepare plans according to the plans approved by Govt. of India to procure orders from the International market including domestic market for designing, manufacturing, and erection and commissioning of Thermal sets, Hydro sets, and nuclear sets, etc.
4. **Industry:** Industry Sector is primarily responsible to procure orders from various Industries for supply of equipment like high speed industrial turbines, Industrial Boilers, Electric Motors, High Voltage transformers, Switchgear; pumps etc. and distribute the orders among various manufacturing units.
5. **Research and Development:** R & D Department is responsible to develop in house technology in order to avoid expenditure on technical know-how imported from outside agencies.

The activities of other important departments functioning under Corporate Office are given below:

A. Materials Management

Executive Director heads Material Management Department which deals with canalizing agencies. Apart from this, the department performs the following functions also:

- Material Budgeting and Statistical Reporting
- Material Planning

- Insurance of incoming material
- Rejected Materials Clearance
- Processing of indents submitted by various divisions. Material Management department prepares material budget on the basis of information received from various units about estimated production requirement of material and material in hand.

The normal procedure followed by the Company for procurement of material is given below:

Purchase Policy

The Company adopted a revised purchase policy in 1998 as per which the Company may procure only from vendors listed in the approved vendors list except in very special circumstances as defined in the working instructions of the respective unit. Procedure has been laid down for registration and approval of vendors, their periodic performance evaluation.

Tender System

Tender system has been adopted to procure materials at the most competitive rates. Three kinds of tenders are in vogue viz., Open Tender, Limited Tender and Single Tender. Details of all single tender purchases valued above Rs.100 lakh may be sent to the Corporate Materials Management every month.

Purchase Committee

Purchases are also made through tender and negotiations. The Head of unit or the Product Manager or the Head of the Material Management may constitute a Purchase Committee comprising representatives from indenting, purchase and finance. Recommendations of the committee shall be submitted for approval by the competent authority. Purchase committee may also state in their recommendation whether the prices are reasonable and commitments are within the approved budget.

Purchases are made through other modes like long term contracts (Regular consumption items) and Personal enquiries (small value items and emergency requirements)

B. Finance Department

Director (Finance) heads Finance department and is assisted by an Executive Director (E.D.). The following departments are under E.D (Finance), each being headed by a General Manager

1. Finance

2. Financial Services
3. Taxation
4. Project Finance

Basically Corporate Finance Department is looking after the following works:

- Budgetary Control
- Performance Appraisal
- Cash Management
- Financial Services
- Investment \ Borrowings
- Preparation of Annual Accounts

(1) Cash Management

The Cash Management Group covers transactions relating to Centralised cash credit maintained with member banks of consortium comprising 12 banks. The group also watches the cash inflow and outflow of the Company.

(2) Financial Services

Originally the areas for Financial Services were defined as:

- Management of surplus cash of the Company
- Development of suitable package for project finances
- Development of terms for sale through leasing
- Raising of loan in domestic and international markets and arranging for currency and interest swap

Over the years there have been changes in the role \ activities of FSD depending upon the needs of the organisation. These now include consortium banking arrangements \ funds and limits, Forex Risk Management and other related areas.

(3) Finalization of Annual Accounts

Corporate Office (Finance) is responsible for the consolidation and finalization of Annual Accounts, getting them audited and finally approved by Board of Directors. Various units are maintaining separate accounts and prepare individual Balance Sheets which are merged to prepare the Company's consolidated balance sheet. Guidelines \ circulars are issued by the Corporate Office from time to time to units for preparation of annual accounts.

(4). Board Level Audit Committee (BLAC)

BLAC comprises Director (Finance) and two other part-time Directors as its

members. General Manager (Internal Audit) is the convenor of BLAC. The minutes of BLAC are submitted to Board of Directors. BLAC is expected to review and ensure that Company's activities are consistent with the statutory provisions enshrined in the Companies Act. In addition to these functions, Audit Committee is expected to

- Examine the major comments of the Statutory Auditors and C & AG on the accounts \ operations of the Company.
- Hold discussions with the Statutory Auditors on the issues raised by C & AG office.
- Review the position of Internal Control System prevalent in the Company and suggest measures for improvement and
- Review the Internal Audit Programme, ensure co-ordination between the Internal and external Auditors and enable the development of a strong Internal Audit function in the Company

(5) Internal Audit

Internal Audit Department is headed by a General Manager (Internal Audit), who directly reports to Director (Finance). He is assisted by five Deputy General Managers, 12 Sr. Managers \ Managers and other audit staff. There are eleven Wings of Internal Audit located in different units of the Company including one at New Delhi.

Internal Audit Manual of 1979 was revised in September 1999.

Annual Audit Programme of Internal Audit Wing is drawn up at the beginning of each financial year. Various units have been classified into 'A', 'B', and 'C' categories and are covered annually, one in two years and four years respectively. In addition to regular audits of all divisions of the units, sites and offices; coordination with Govt. Audit, other assistance to Management and Convening of BLAC \ ULAC meetings, Internal Audit Wings are supposed to conduct the Special Audit Reviews on thrust areas identified by Corporate Internal Audit \ Unit Management from time to time.

(6) Policy relating to Civil works

The term 'works' connotes acquisition of land \ buildings, creation of fixed assets and additions thereto as well as their maintenance and repairs. It includes all types of works concerned with development of land, civil construction, structural and mechanical fabrication, electrical installations, air conditioning, purchase and erection of plant and machinery and allied types of work.

Deposit works are also undertaken by the Company on behalf of the Central \ State Governments or other bodies the cost of which is not met out of the Company's funds.

30.8 HUMAN RESOURCES DEPARTMENT

Human resources Department deals with the training programme and continuing education for the employees. Human Resources Development Institute (HRDI), the Corporate Training Institute of the Company, in association with the Advanced Technical Education Centre (ATEC) in Hyderabad and Human resource Development Centre at the units, is responsible for the total Human Resource Development of the Company. Further, Competency Development \ Assessment Centre for Senior Executives is taken up by HRDI.

30.9 PLANNING AND DEVELOPMENT

Central Planning and Development Department prepares short term as well as long term production planning for the Company. This department calls for information from different units \ divisions on the basis of which production programmes are fixed.

30.10 MANAGEMENT INFORMATION SYSTEM

Short term investment of surplus funds, Status of ongoing projects etc. is reported to the Board regularly.

The Company has prescribed certain reports \ information to be submitted to the management by the different units \ departments. Some of the Internal Reports submitted to the management are as under:

- Operating Results
- Financial Performance Report
- Sales Order Book Position
- Cash Flow Statement

A. POWER SECTOR SOUTHERN REGION, BHEL, CHENNAI UNIT

1. Introduction

Power Sector, Southern Region, Chennai was formed in 1974 with a view to discharge the exclusive responsibility of erection and commissioning the Company's own and bought out equipment wherever such work is entrusted to BHEL. Its activities are spread across the States of Madhya Pradesh, Chhattisgarh, Tamil Nadu, Andhra Pradesh, Karnataka, Kerala, Orissa and the Union Territory of Pondicherry.

2. Organisation

The Division is headed by a Group General Manager assisted by a General Manager (Projects) and various (12 departments) other departmental Heads in the ranks of Additional General Manager \ Sr. Deputy Manager \ Deputy General Manager. All project Managers at various sites report to the General Manager (Projects). Besides, there is a Service after Sales unit situated at Hyderabad which caters to after sales service and minor erection works. The Internal Audit of the Unit in South reports to General Manager (IA) at Delhi.

3. Business Activities:

The following are the business activities of the Unit:

- Installation and commissioning including civil works of thermal, nuclear, hydro based gas based turnkey power projects & combined cycle Power Projects, captive power projects and co-generation systems, pollution control systems, cooling water systems, coal \ ash handling systems for power plants and other industries;
- Modernization and rehabilitation of old power plants, which includes Residual Life Assessment study and Life Extension Program;
- Installation of Electrical systems in power plants and related industries; and
- After Sales maintenance service.

4. Important conditions affecting the Unit's business:

The major business of the Unit is erection and commissioning of power plant equipment manufactured by sister Units for which Power Sector (Commercial Management) New Delhi obtains Composite order. The major customers are NTPC and various State Electricity Boards. Hence, Units do not have much role in procurement of orders or determination of prices except prepare quote to Power Sector (CM).

The entry of multi-nationals like ABB and foreign Chinese firms has resulted in increased competition and consequent reduction in margins due to reduction of prices to withstand competition.

The customer's continuous demand for reduction in cycle time has resulted in increased costs and liability for liquidated damages in case of non-compliance with agreed time schedule. Any delay in supply by manufacturing units is ultimately reflected in the erection and commissioning and hence Unit has also to bear the consequent liquidated damages even in the event of the units' adhering to the time allotted for erection and commissioning.

5. Special points to be seen in propriety audit:

Audit of Power Section, Southern Region Headquarters:

- Scrutinize the estimates and quotes offered by Region for each job and the final price agreed with the customers. Ensure that actuals are comparable to estimates.
- Check the progress of work with reference to targets fixed and analyse the reasons for delays.
- In respect of sub-contracts awarded, whether the prescribed procedure as per the Purchase \ Works Manual \ CVC guidelines have been followed. Check all deviations are justified and approved by competent authority.
- Check that Tools and Plants deployed at various sites are optimally utilised and charges recovered as per contract terms.
- Whether contract closing and commercial settlement have been done promptly and action taken to settle all pending points and also to realize the full amounts from the customers including statutory levies.
- Check if company has protected its interests by opting for marine cum erection cum storage insurance policy in respect of all engineering contracts undertaken with appropriate policy excess. Also ensure that period is in accordance with the time schedule of the project and in case of extensions whether same were justified.
- Examine the Supervision contracts (for lending the services of BHEL personnel) and related papers and see that the rates charged are as per instructions of Corporate Office and that the manpower deployed is as per agreement with the customers.

Audit of Site Offices:

- Examine the system of monitoring daily progress of the Project with reference to the Schedule and reasons for delay and steps initiated to reduce delays.
- See whether invoices are prepared, presented and payments obtained from customers correctly and promptly as per the agreed billing schedule on completion of each stage of work.
- Where extra works are involved examine the justification for the extra work, whether approval of competent authority has been obtained and in case it is chargeable to manufacturing Units whether same has been accepted by the manufacturing Units.

- In case of payment of ORC (Over run charges) to the sub-contractor see that the delay was not due to the fault of the sub-contractor and that proper approval for payment of ORC has been obtained.
- See whether the customer has levied any penalties for violation of contractual terms.
- Check payments to sub-contractors with reference to stages of work completed as per Measurement Books, contractual terms etc., and also see whether recoveries have been made for materials issued, hiring of equipment, statutory levies including stamp duty etc.
- See whether proper debits \ credits are transacted in accounts for transfer of materials from and to other units and collection by and also on behalf of other Units.
- Ensure that purchases made at site are as per procedure laid down, actual needs, and as per delegation of powers.
- Examine the utilization of capital equipment like cranes at sites. Whether prompt action has been taken for repairs in case of breakdowns and in case repair is due to improper handling by sub-contractors necessary recoveries are made.
- Examine the stores records and check the system of updating records
- Examine the system of preferring insurance claims, their value, and see whether they are correct and claimed in time and fully realized.
- Also verify that excess opted by the company is justified.

6. Risk Areas:

The erection material received from manufacturing Units but rendered surplus on completion of a contract belong to the manufacturing Units, but are retained by PSSR. PSSR does not account these materials in its books and in most sites; no systematic inventory is maintained either by PSSR or manufacturing Units. Some materials are utilized at site or transferred to some other site at the time of closure of site. Audit should ensure that there exists a system to monitor such left over items at sites, identify needy locations and transfer them or else dispose the same to the best advantage of the company

In respect of composite contracts, the contracts are finalized at Power Sector (CM) \ Industrial Sector based on quotation from the Unit. Where lower price is accepted with the customer and allocated to the Unit, reasons for the acceptance of the lower price needs justification.

7. Computerisation

The activities on Personnel and Financial application and Site Management application are computerized.

B. BOILER AUXILIARIES PLANT, RANIPET UNIT

1. Introduction

The High Pressure Boiler Plant, BHEL, Trichy embarked on 3rd stage expansion raising the boiler manufacturing capacity from 87,000 tonnes to 165,000 tonnes and decision was taken to relocate some of the facilities for manufacturing of Boiler auxiliaries to a new location and expand the same. Facilities for manufacture of 24,000 tonnes of boiler auxiliaries were shifted from Trichy to Ranipet. This was expanded to a level of 57,000 tonnes by investing additional funds under a separate project report. The Plant commenced commercial production on in July 1982.

The Unit modernized the existing plants (July 2001) at a cost of Rs.850 lakh. Due to the modernization of the plant it was expected that there will be improvement in the manufacturing cycle time resulting in reduction of cycle time for manufacture of ESP for 250 \ 500 MW from 18 months to 14 months.

The Unit till 1987-1988 continued three different collaboration agreements for the three products viz., Air Preheaters, Fan and Electrostatic Precipitators concluded by Trichy Division. All the three agreements expired in 1987-1988 and were not extended. As a part of diversification scheme, the unit went in for limited tie-up and collaboration (November 1993) with M \ s Nordex (Denmark) for obtaining drawing, design etc. for 150 KW and 250 KW WEGs involving payments of Rs.219.19 lakh to the collaborator. During 1999-2000 the Unit entered into a collaboration agreement with M \ s Rothemuhle GmbH, Germany for manufacture of Fabric Filters.

2. Product profile

The product profile of BAP, Ranipet is given below:

- Electro static precipitators used in Power plants, Fertilizer units, Paper and pulp industry, cement industry etc.
- Microprocessor based BHEL's Advanced Precipitator Controller (BAPCONs).
- Air Pre-heaters
- Radial Fans, Axial Impulse and axial reaction fans.

- Wind Electric Generators.
- Desalination Plants with imported membranes from DuPont, USA.
- Coal Handling and Ash Handling equipment.
- Defence products like missile launchers.
- Fabric filters.
- Gates & dampers

3. Organisation

The Unit is headed by the Executive Director, who reports to the Executive Director, Corporate Office, New Delhi. The Executive Director is assisted by the General Manager (Engineering R&D), Additional General Manager (Operational) who is in-charge of production Management and Material Management, Additional General Manager (Human Resources and Civil), Sr. Deputy Manager (Quality), Additional General Manager (Erection Services), Sr. Deputy Manager (Finance). The Internal Audit Wing of the Unit, considered part of the Finance Wing is headed by DGM functionally responsible to GM (Internal Audit) at Corporate Office.

4. Important conditions affecting the Unit's business

- The Unit gets orders directly from Power Sector (Marketing) at the rates allocated by them.
- Unit's market for Wing Electric Generators is almost nil, as regards Desalination Plant.
- The present market for Fabric filter in the country is not significant but the Unit exceeds the demand to improve in view of the more stringent Pollution Control norms adopted by Government.

5. Propriety audit

The special points to be seen during the course of propriety audit are:

Manufacturing cycle: to review

- production performance and examine reasons for shortfall in production.
- Minutes of Product Committee Meetings
- shop production vis-a-vis fabrication by Sub-contractors with reference to capacity and annual plan.
- fixation of labour rates, administration and commercial overheads.

- costs booked under NS3 (Replacement of BHEL's cost) and NS5 (Free supply under guarantee clause) to examine the causes for replacement \ rectification.

Marketing \ Sales cycle

- Review estimates prepared by marketing department.
- Review final cost with the estimated cost and price and analyse reasons for loss and examine whether the loss was due to improper price fixation.
- Examine reasons for Liquidated damages, if any paid with reasons therefor.
- the reasonability of price allocated and overheads recovered with company's policy.

Material Management cycle:

- Examine critically the slow moving \ non-moving and obsolete items of inventory.
- Examine the system of effective utilisation \ identifying needy locations \ disposal of all surplus stores and its adequacy for the company
- Examine the efficiency and adequacy of system of reconciliation of materials supplied to sub-contractors for further processing, their return, return of scrap and recovery for shortages \ defective \ damaged materials etc
- Examine the method of disposal of scrap and surplus materials.
- Review of Bill of Entry, Ship cost sheets etc., to examine whether concessions under DEEC \ Project imports if available were utilized and accounted properly.
- General Review of working of service departments- Canteen, Hospital, Guest House, Transport etc
- Review of Capital Expenditure incurred to ensure availability of Capital sanction, viability of project \ cost-benefit analysis etc.
- Review of RG 23 and other Central Excise records to ensure proper utilisation of CENVAT credit.
- Review of insurance claims to ensure timely lodging of claims and their proper follow up.
- Review of pending legal cases.
- Review the scope and adequacy of coverage of Internal Audit Reports.

6. Computerisation

- Integration of Personnel and payroll database covering Personnel & Administration and Accounts Sections.

- Integration of database encompassing functional areas viz. Commercial, OP&C, Engineering, MSA, Material Planning, Shipping & Purchase.

7. Risk Area:

- In respect of materials sent to contractors for further fabrication or part processing, non-receipt of Material Accounting Statement (MAS) from sub-contractor or non completion of reconciliation may result in difficulty in ascertainment of the quantity of materials processed and balance to be processed, amount of scrap \ off-cut materials recoverable \ returnable including corresponding values.
- In respect of composite contracts where the contracts are finalized at Power Sector (CM) \ Industrial Sector etc. based on quotation from the Unit, but where lower price is accepted with the customer and allocated to the Unit, the justification for the acceptance of the lower price is not ascertainable as reasons therefore is not available at the Unit.

8. Costing system:

The unit follows contract system of costing. Each boiler \ contract is given a distinct Customer order number and actual cost data are collected and booked work-order wise. The unit has identified various homogeneous valuation groups in order to obtain representative average cost worked as Rs. \ kg. The customer orders are broken into various Product Group Main Assemblies (PGMA). Each work order against which costs are booked has a thirteen digit code. The first four digits of the work order number represents the Customer order number, the next three digits represent the Despatch Priority Number (DPN), and the eighth digit indicates the number of supply and the last five digits represent the PGMA. In the above system, cost details can be obtained, customer order wise and also VG wise and according to the nature of supply (main replacement) for each customer order. The material cost in respect of material issued supply, spares, free from BHEL stores is collected from the Priced Stores Ledger System, based on material issue vouchers. In respect of bought out materials sent direct to site (DTS items), costs are collected from DTS pricing system. The details of labour hours booked against various work orders are collected from time docket to arrive at the direct labour cost. Factory overhead is worked out as a percentage of labour cost. The fabrication costs are collected from the MSA system. Material cost plus labour cost plus factory overheads and fabrication cost will give the factory cost of a boiler \ contract.

The Unit prepares a Production and Despatch Statement where the actual production

and dispatches during the year for various customer orders are compared with the design weight. Where the cumulative production in respect of a work order is less than 95% of the design weights such work orders are treated as work in progress. The entire booking (production less than 95%) is termed as Gross WIP. As Gross WIP includes some portion in the form of Finished Goods (Despatchable to the customer), the same is eliminated from the Gross WIP is derived at Finished goods and valued for every VG either at average cost or at the customer price whichever is lower. VG rate is the rate per kg of the sale value of a particular valuation group (VG) divided by the design weight of that VG for the customer order.

Some of the important costing records maintained are:

- Priced stores ledgers
- Production and Despatch Statements
- VG-wise average cost based on cost of completed work orders during the last one year.
- GMS (Group Manufacturing Specification) \bill of materials for each customer order.
- Marketing file containing marketing estimates based on which bids were submitted
- The agreed transfer price from Trichy in respect of Composite contracts
- Work in progress limitation statements.

List of general records \ registers \ files

Standard Procedures issued by IED, Manuals and Policy Statements on Purchase, works, sales, stores, Accounts, Internal Audit etc., Group Manufacturing Specifications (GMS) giving the detailed PGMA-wise bill of materials for various work orders, Management Information Reports (MIRs) generated by various departments, Revenue \ Capital Budgets and Internal Audit Reports.

C. REGIONAL OPERATIONS DIVISION, CHENNAI UNIT

1. Organisation

Regional Operations Division (ROD), Chennai is a service unit which co-operates with various services rendered by the Company to the customers in the three regions comprising Tamil Nadu, Karnataka and Kerala. It has recently set up a new Regional Office at Thiruvananthapuram to look after the activities in Kerala. A General Manager in-charge of ROD, Chennai, Material Services Division including Port Office, heads the Division.

2. Business Activities

The following are the major functions of this office:

- Marketing of certain products like switchgear, transformers, energy meters, insulators, non-conventional energy products like solar water heating system, solar PV modules and wind electric generators etc.
- Pursuing the outstanding of other Units with the various customers in the region.
- Handling of imports and exports of cargo of the various divisions of BHEL operated through Chennai Port both by sea and air.
- Filing of Export incentive claims with JDGFT, Chennai in respect of Trichy and Ranipet units.
- Liaison with customs and Port Trust authorities.

Special points to be seen are:

- Review each shipment with a view to ascertain that the freight charges and customs duty paid were correct and that there was no excess payment due to wrong classification of material.
- Scrutinize the demurrage charges in detail to ascertain that there are no lapses on the part of the Unit in clearing \ bonding the imported cargo within the free time allowed.
- Review the claim for refund \ drawback of customs duty, refund of demurrage charges or container detention charges to ensure that the claims have been preferred promptly and follow up.
- Review that the materials dispatched to other Units are promptly acknowledged by them.
- Scrutinise tenders, contracts, agreements etc in respect of handling and transport contractors and payments made to them to ensure correctness of the claim.

3. Computerisation

Following activities are computerized.

- Material Management System covering Import Processing for Sea and Air Cargo, Export Processing, Accounts and Bill Processing.
- Commercial System covering Marketing and Finance & Administration.

4. Important records maintained

- Custom \ Port Trust Deposit Registers

- Consignment Register
- Shipping Register
- Ocean Freight Register
- Customs Claims & Chennai Port Trust Claim Registers
- Bill of Lading
- Ground Handling Agency Register
- Export Incentive Register
- Daily Dispatch Advice Slips
- Demurrage explanation note
- Monthly Management Information Report

Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts on selection- Transaction -	Annual
Power Sector Southern Region, Chennai-	Annual
Boiler Auxiliaries Plant, Ranipet-	Annual
Regional Operations Division, Chennai-	Annual

CHAPTER 31

NATIONAL THERMAL POWER CORPORATION LIMITED

31.1 INTRODUCTION

The Electricity (Supply) Act, 1948 provided for establishment of organizations namely State Electricity Boards in States to construct own and operate power generating stations and the role of centre in the power development in the country till 1975 was of a coordinating agency. The rapid growth of industry in India, wide gap between generation and requirement of power, the cost and time over-run in power projects taken up in the State Sector and under-utilisation of capacity, however called for bold strategy requiring union Govt. to play a significant role in power generation and transmission to augment and supplement the efforts made by the State for accelerating power development. This led to amendment of the Electricity (Supply) Act in 1975 which paved the way for setting up generating companies in Central Sector.

The National Thermal Power Corporation (NTPC) was incorporated on 7th Nov. 1975 as a company under the Companies Act, 1956 and has since then been taking up programme of establishing thermal and gas power stations and supply of power on regional basis.

The Units of NTPC at Ramagundam Super Thermal Power Station, Andhra Pradesh, Kayankulam Combined Cycle Plant, Alappuzha, Kerala, Simhadri Power Project, Vizag, and Andhra Pradesh are brought under audit jurisdiction of this office from MAB-III New Delhi with effect from April 2009. The unit is headed by the General Manager, assisted by other heads of departments.

31.2 OBJECTIVES OF THE NTPC

The following are the Corporate Objectives of NTPC:

i) **Growth**

- To add generating capacity within prescribed time and cost;
- To expand consultancy operations and to participate in ventures abroad;
- To diversify into Hydro and Non-conventional Energy Sources for Power Generation;

- To diversify into power related businesses to ensure integrated development of energy sector in India.
- ii) Performance Leadership**
- To achieve continuous performance improvement in the areas of project implementation, plant operation and maintenance, generation efficiency etc. and to acquire and sustain internationally comparable standards in these areas with good business ethics and values.
- iii) Human Resource Development**
- To develop a learning Organization having knowledge-based competitive edge;
 - To create a culture of team-building, empowerment and accountability to convert knowledge into productive action with speed, creativity and flexibility
- iv) Financial Soundness**
- To maintain and improve the financial soundness of NTPC by managing the financial resources in accordance with the best commercial utility practices
 - To develop appropriate commercial policies which ensure remunerative tariffs and minimum receivables
- v) Technology Leadership**
- To acquire, assimilate and adopt reliable, efficient and cost-effective technology and to disseminate knowledge to other constituents of the power sector in the country.
- vi) Sustainable Power Development**
- To contribute to sustainable power development by functioning as a responsible corporate citizen and discharge social responsibilities in the areas of environment protection and rehabilitation;
 - The Corporation will strive to utilize the ash produced at its stations to the maximum extent possible.
- vii) Research & Development**
- To carry out Research & Development for efficient & reliable operation of power plants in the country.

31.3 AUTHORISED AND EQUITY CAPITAL

NTPC is a listed company with the Central Government holding 84.5% of the equity share capital as on 31.3.2011.. The rest is held by Institutional Investors and the Public. The authorised and paid up capital of the Company as on 31.3.2011 were Rs.10,000 crore and Rs.8245.46 crore respectively.

31.4 FINANCING OF PROJECTS

As per the recent Government policy, a maximum debt-equity ratio of 4:1 is permitted for construction of power projects. However, most lending agencies and developers prefer a debt-equity ratio of 70:30. In order to leverage its internal resources for larger capacity addition, the corporation would implement all new projects with a debt-equity ratio of 70:30. The company had been availing of loans from domestic financial institutions and the foreign currency term loans from various Consortium of banks, Japan Bank of International Corporation and Asian Development Bank.

31.5 ORGANISATIONAL SET UP

The Company is under the administrative control of the Ministry of Energy, Department of Power. The affairs are managed by the Board of Directors headed by a Chairman and Managing Director (CMD) assisted by 6 functional Directors, Chief Vigilance Officer, Executive Committee, Management Committee and a team of Senior Officers i.e. Executive Directors.

31.6 MAJOR ACTIVITIES OF THE COMPANY

(a) The business portfolio of the company is as under:

- Power Project Construction.
- Renovation & Modernization of Power Stations
- Generation of Electric Power.
- Coal Mining and Coal Washaries
- Oil/ Gas Exploration.
- Distribution and Trading of Electricity through its wholly-owned subsidiary companies.

The company is also participating, in to following businesses through its Joint Venture Companies:

- Power equipment manufacturing
- Power related services
- Energy efficiency services

The Company has formed Subsidiary Companies to augment power generation both in hydel and thermal and to make a foray in the business of distribution and supply of

electrical energy, develop small and medium hydro electric power projects up to 250 MW and undertake business of sale and purchase of electric power. The Company has entered into an understanding with Rural Electrification Corporation of India for execution of Rural \ Electrification Projects in the states of Chhattisgarh, Madhya Pradesh and Orissa.

(b) The Company has evolved a policy of securing long term tie-up for fuel before investment decisions are made for a project. This policy aims at procuring fuel for its stations at the most competitive rates so as to ensure that the tariffs of its stations are competitive. In this direction, the Company obtained license for exploration of 6 coal mining block from the Government of India and besides the Government has also allotted 2 mining blocks to be developed through a Joint venture between the Company and Coal India Limited. All these mining blocks have a production potential of more than 50 million tonnes per annum.

Further, a consortium comprising NTPC Limited, Canoro Resources Limited and Geopetrol International has been allotted a petroleum block in the state of Arunachal Pradesh and exploration activities at site have since been commenced.

31.7 Subsidiaries & Joint Ventures

Subsidiary Companies

1. **NTPC Vidyut Vyapar Nigam Limited** has been incorporated as a wholly owned subsidiary of NTPC to tap the vast potential of Power Trading for optimization of capacity utilization.
2. **NTPC Hydro Limited** has been incorporated as a wholly owned subsidiary of NTPC for development of small and medium scale hydro power projects.
3. **NTPC Electric Supply Company Limited** has been incorporated as a wholly owned subsidiary of NTPC for taking up power distribution activities.
4. **Kanti Bijlee Utpadan Nigam Limited** (formerly Vaishali Power Generating Company Limited) has been incorporated to acquire the existing units of Muzaffarpur Thermal Power Station and run the plant. NTPC is holding 64.57% equity in this company and balance 35.43% is held by BSEB. The company is also expanding its capacity by adding two units of 195 MW each.
5. **Bhartiya Rail Bijlee Company Limited** has been incorporated for setting up of 4 units of 250 MW each of coal based power plant at Nabinagar, Bihar for meeting traction and non-traction demand of Railways. In this Company, NTPC is holding 74% equity and balance 26% is held by Ministry of Railways, Govt. of India.

Joint Ventures

6. **Utility Powertech Limited** - A 50:50 Joint Venture Company of NTPC and Reliance Infrastructure Limited (formerly Reliance Energy Limited) has been incorporated to

- take up assignments of construction, erection and supervision in power sector and other sectors in India and abroad.
7. **NTPC-Alstom Power Services Private Limited** - a 50:50 Joint Venture Company of NTPC and Alstom Power Generation AG, Germany has been incorporated for taking up renovation and modernization assignments of power plants both in India and abroad.
 8. **NTPC-SAIL Power Company Private Limited** – a 50:50 Joint Venture company of NTPC and SAIL owns and operates a capacity of 314 MW and 500 MW (2X250 MW) expansion project as captive power plants for SAIL’s steel manufacturing facilities located at Durgapur, Rourkela and Bhilai.
 9. **NTPC Tamil Nadu Energy Company Limited** – a 50:50 Joint Venture company of NTPC and Tamil Nadu Electricity Board has been incorporated to establish and operate a 1500 MW (Phase I -1000 MW & Phase II – 500MW) thermal power project in Tamil Nadu.
 10. **Ratnagiri Gas and Power Private Limited**, a Joint Venture Company with GAIL, Maharashtra State Electricity Board and Indian Financial Institutions, has been incorporated for taking over and operating gas based Dabhol Power Project alongwith LNG Terminal. In this company, as of 20th August, 2010, 30.17% equity is held by NTPC, 30.17% is held by GAIL, 17.90% by MSEB and the balance 21.76% is held by Indian Financial Institutions.
 11. **Aravali Power Company Private Limited**, a joint venture company with Indraprastha Power Generation Co. Ltd. (IPGCL) of Delhi Govt. and Haryana Power Generation Corp. Ltd.(HPGCL) of Haryana Govt. has been incorporated for setting up of Indira Gandhi Super Thermal Power Project of 1500 MW (3X500 MW), a coal fired power plant, in Jhajjar District of Haryana. In this company NTPC is holding 50% equity stake and 25% each equity stake is held by IPGCL and HPGCL.
 12. **NTPC-SCCL Global Ventures Pvt. Ltd.**, A 50:50 JV Company with Singareni Collieries Co. Ltd, has been incorporated to jointly undertake the development and operation & maintenance of coal blocks and integrated coal based power projects in India and abroad.
 13. **Meja Urja Nigam Private Limited**, A 50:50 Joint venture company with Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited for setting up 1320 MW (2X660 MW) coal based power project in Tehsil Meja of Allahabad District in Uttar Pradesh. .
 14. **Nabinagar Power Generating Company Limited**, a 50:50 Joint Venture company with Bihar State Electricity Board, has been incorporated for setting up of 1980 MW (3X660 MW) power project at Nabinagar in Bihar.
 15. **BF-NTPC Energy Systems Limited**, a joint venture with Bharat Forge Limited has been incorporated for setting up a new facility to take up manufacturing of castings, forgings, fittings and high pressure piping required for power projects and other industries, balance of plant equipment for power sector. This company is a subsidiary of Bharat Forge Ltd with 51% equity holding and remaining 49% is held by NTPC.

16. **NTPC- BHEL Power Projects Private Limited**, 50:50 joint venture with BHEL was incorporated for taking up activities of Engineering, Procurement and Construction (EPC) of power plants and manufacturing of equipment for power plants and other Infrastructure projects in India and abroad.
17. **National Power Exchange Limited**: This Company has been formed with the objective of establishing a platform for trading of power through a well established Power Exchange. Initially, in this company 50% equity is held jointly by NTPC, PFC and NHPC and remaining 50% is held by Tata Consultancy Services Limited. At present, NTPC holds 16.67%; NHPC holds 16.67%, PFC and Bombay Stock Exchange each holds 16.66%, TCS holds 19.04%, IFCI Ltd holds 5.72% and balance 8.58% is held by others.
18. **Transformers and Electricals Kerala Limited (TELK)** NTPC limited has acquired 44.6% stake in TELK on 19.06.2009 from Govt. of Kerala. The company deals in manufacturing and repair of high voltage power transformers.
19. **International Coal Ventures Private Limited**: A Joint venture company incorporated amongst NTPC, SAIL, CIL, RINL and NMDC to carry on business for overseas acquisition and/ or operation of coal mines or block/ companies for securing coking coal and thermal coal supplies. NTPC holds 14.28% equity, SAIL 28.57%, CIL, 28.57%, RINL 14.28% & NDMC 14.28%.
20. **National High Power Test Laboratory Private Limited**: a joint venture company incorporated amongst NTPC, NHPC, PGCIL and DVC for setting up facility for short circuit testing of transformers and other electrical equipments. Each of the JV partners holds 25% of the issued and paid up capital of the JV Company.
21. **Energy Efficiency Services Limited**: A joint venture company incorporated amongst NTPC, PFC, PGCIL, and REC with equal equity participation for implementation of Energy Efficiency projects.
22. **CIL NTPC Urja Private Limited**: A 50:50 Joint Venture Company incorporated between NTPC and Coal India Ltd with the aim of undertaking the Development, Operation & maintenance of Coal Blocks at Brahmini and Chirco Patsimal in Jharkhand and Integrated Coal based Power Plant(s).
23. **KINESCO**: A JV incorporated between NESCL & KINFRA/KEPIP in Kerala for Power Distribution.

31.8. Corporate Planning and Programming (Including Budgeting)

Corporate planning and programming is done by the Corporate Planning Department. The construction budgeting is done by Corporate Budgeting Department and the Operation Budgeting is done by Commercial Department; both functioning under the control of Director (Finance).

31.9. System of Performance Appraisal (Procedure and Periodicity of Evaluation of Progress of the Company)

In respect of the implementation of the new projects Project Monitoring Department under the control of Director (Project) reviews the progress through monthly Project Review Team meetings. In the case of Operations and Performance of the power stations, the performance aspects are reviewed through monthly Operation Review Team meetings.

The business of the Company is managed by the Board of Directors which formulates the strategy, regularly reviews the performance and ensures that the Corporation achieves its Mission. To assist the Board on specific areas, the Board of Directors has constituted Six Committees as under:

1. Audit Committee
 2. Shareholders / Investors Grievance Committee.
 3. Remuneration Committee.
 4. Committee on Management Controls.
 5. Contracts Sub- Committee.
 6. Project Sub Committee
 7. Investment / Contribution Sub-Committee.
 8. Committee of the Board for pre and post-allotment activities of NTPC's Securities
- Minutes of each Committee Meeting are placed for information of the Board.

With a view to review the Management Control System, significant deviations in project implementation, and Construction, Operation and Maintenance Budgets, the Board has also constituted a Committee on Management Controls with the following members:

1. Director (Operation)
2. Director (Finance)
3. Joint Secretary & Financial Advisor, Ministry of Power
4. One part-time non-official Director of part-time Director in the absence of non-official part-time Director to be nominated by the Board

31.10. MANAGEMENT INFORMATION SYSTEM

A monthly report is generated from project sites and power stations indicating quantitative and physical progress achieved, short-falls, reasons for short-fall, measures taken to overcome the short-falls, further help needed, if any, from top level, various achievements and targets and plans for the next month. In this manner monitoring and controlling of the

projects from the site is done to identify and ascertain problems which need timely solution from various control centers.

31.11. NATURE OF CONTRACTS AND AGREEMENTS ENTERED INTO BY THE COMPANY

The Contracts and Materials Department is in charge for calling tenders for the new projects and Renovation \ Modernization works on global and domestic bid basis. Such contracts are in the nature of manufacturing, supply, erection and commissioning of the units and other major civil works. In addition to this the power stations are empowered to enter into contracts for the local civil works and supplies.

31.12. MATERIAL MANAGEMENT AND INVENTORY CONTROL

Corporate Contracts and Materials Department has been handling the procurement of high value, large and complex equipment requiring specialized engineering knowledge by complying with Domestic as well as International Competitive Bidding Procedures. While adequate levels of `stores and spares` inventories are maintained for ensuring optimum generation, the status of non-moving \ slow-moving \ obsolete stores and spares are also reviewed periodically by this department.

For the purpose of inventory control the company has devised various control systems like fixation of Inventory norms, Inventory classification for selective control, lead time analysis, recoument systems, material requirement planning, MIS for Inventory Management, Spare part forecasting, planning & budgeting etc.

31.13. MANPOWER ANALYSIS

The company assesses its Human Resource assets using various accounting principles embedded in Human Resource Accounting philosophy to treat them on par with other assets. Lev and Shwartz model of HR accounting is employed to assess the value of the human resources.

31.14. BULK SUPPLY AGREEMENTS

For sale of power by NTPC from all its power stations, the Country has been divided into five regions comprising 24 SEBs and Electricity undertakings. NTPC's policy on sale of power from its stations requires the execution of long term Power Purchase Agreements -25 years in the case of coal fired plant and 15 years for gas fired plant. After the implementation of the One Time Settlement Scheme (OTS) and signing of Tripartite Agreements i.e. between

NTPC, SEBs \ Electricity Undertakings and respective State Governments, wherein SEBs are required to establish Letters of Credit to cover 105% of average monthly billing for the preceding 12 months, the realisation of the amounts due from the customers for sale of electricity has been 100% for the past three years.

31.15. COSTING SYSTEM

The basic system of Cost Accounting followed is based on absorption costing principles which envisage:

- (a) Collection of operations cost system-wise and maintenance cost discipline-wise, further sub-divided into system \ sub-system.
- (b) Aggregation of system operation cost and system maintenance cost to proved system cost.
- (c) Calculation of cost of generation per unit

From financial year 2005-06 the audit of cost records was under compulsory and accordingly Cost Auditor was appointed for the purpose by the Company Law Board.

31.16. LIST OF RECORDS AND BOOKS MAINTAINED BY THE COMPANY

In addition to the accounts books like cash book, Ledger Bank Book journal, general ledger, fixed assets register, subsidiary ledgers, salary register etc. the Company maintains the following special registers \ books at head office and at its various units :

1. Head Office

- | | |
|---|---|
| (a) Monthly account compiled on the basis of returns \ reports received from the units. | (c) Share Capital Register |
| (b) Loan Register | (d) Consolidated Register for Balance Sheet |

Units

1. Finance

- | | |
|---|--------------------------------|
| (a) General Ledger | (f) Security Deposits register |
| (b) Cash Book \ Bank vouchers | (g) Establishment records |
| (c) Works account records | (h) Priced Stores Ledger |
| (d) Contractor's accounts records | (i) Township records |
| (e) Supplier's accounts records (fuel, water chemicals and other general spares | (j) Hospital records |
| | (k) Guest house records |

2. Operations and Maintenance Records

- | | |
|---|---------------------------------|
| (a) Unit-wise Generation data | (f) Cooling Water consumption |
| (b) Minutes of Operation Review Team meetings | (g) Fuel consumption |
| (c) Log books of technical sections | (h) Ash generation |
| (d) Chemicals consumption | (i) Performance Guarantee Tests |
| (e) Auxiliary electricity consumption (area-wise) | (j) O & M Manuals |

3. Stores Records

- | | |
|---|--|
| (a) Stores ledgers | (d) Material in Transit |
| (b) Materials pending inspection | (e) Materials Rejected upon Inspection |
| (c) Equipments sent for repair \ reconditioning | (f) Non-moving items lying in stores |
| | (g) Scrap |

31.17. AUDIT COMMITTEE SET-UP

In accordance with the provisions of Section 292A of the Companies Act, 1956 (Act) Board has re-constituted the Audit Sub-Committee of the Board.

The Audit Committee now comprises the following members:

- i) Joint Secretary & Financial Advisor, Ministry of Power, Govt. of India
- iii) Three independent Directors to be nominated by the Board from time to time.

Senior most independent Director on the Audit Committee shall be the Chairman of the Audit Committee.

Director (Finance), Head of Internal Audit and Statutory Auditors are also invited in the Audit Committee Meetings and the terms of reference of such Committee are as per provisions specified in the Act.

31.18. INTERNAL AUDIT

The internal audit of all branches of the company including thermal and gas power stations (except Contract Audit) is conducted by Chartered Accountants firms engaged on remuneration basis. Both the Accounts Audit and Proprietary Audit are conducted by them.

Areas covered by them during the Proprietary Audit are works, procurement, vouching, establishment, stores and operation.

Inspection Reports generated by them are compiled by the Internal Audit wing of the company and perused further.

31.19. AUDIT CHECKS

Audit of contracts is conducted in two stages viz. pre-award stage and post-award stage. The papers \ documents connected with pre-award stage are bid documents & evaluation reports etc. The papers connected with post-award stage are execution of these contracts allowing price variation; time variation and waiver of liquidated damages, etc. Audit checks for various types of contracts are given below: -

A. Execution of Projects

- Whether adequate supply of coal and water was ensured at the time of selecting site for the project.
- Whether requirement of land was assessed properly and prompt action taken to seek environmental clearance \ acquisition from Government or the authorities concerned .
- Whether the infra-structural facilities were created well in time for smooth execution of Project.
- Whether award letters for main Plant and equipment were issued without delay after the Project had been cleared by the Government.
- Whether facilities such as Coal Handling Plant etc. had been created to keep in view the requirement of the Project.
- Analyze reasons for time and cost over-runs in order to pin-point instances of avoidable extra expenditure due to delay in execution of the Project.
- Whether appropriate and adequate project insurance coverage was obtained at the optimum cost

B. Contracts for Supply and Erection of Equipments

- Review of the bid evaluation statement to ascertain that the bids have been tabulated in the specified manner summing up the total cost of deviations.
- Whether specifications given in tender documents have been appraised by foreign financial institutions (in case of World Bank, ADB funded contracts) whether minutes

of proceedings of bid opening \ evaluation report, etc. have been appraised by those financial institutions prior to award of contract.

- To examine recommendations of Tender Committee and see whether the contract has been awarded to the lowest tenderer or else reasons therefor recorded = approved.
- Whether the order has been placed within the original \ extended validity period at accepted rates. If not, quantify extra expenditure incurred as a result of delay in finalization of tender.
- Whether periodic review of owner supplied \ free issue materials lying with the contractor vis-à-vis requirement of the work is done on regular basis.
- Whether recoveries on account of facilities provided to the contractor are in conformity with the terms of the agreement or industry agreed rates.
- Whether there is any unusual \ abnormal delay in installation \ commissioning of machinery \ equipment. If so examine this critically and highlight disadvantages
- Whether there are any instances of mis-matching of various items of equipment resulting in avoidable extra expenditure.
- Whether labour \ material escalation claims paid are as per contract terms.
- Whether final payment of the balance was released only after carrying out performance guarantee tests of the plant & equipment.
- Any increase in cost of the project may be critically analysed with a view to pin-point instances of avoidable extra expenditure.
- Review cases of expenditure incurred subsequently on removal of inherent defects of plant and machinery with reference to delay in commissioning.
- In case of re-tendering the justification for extra expenditure involved as a result thereof.

C. Loan Agreements

- Examine whether the loan application to Government of India, Ministry of Power has been approved by the competent authority.
- Verify the entry to credit of the relevant loan account in the loan ledger.
- Check reconciliation of loan outstanding in the General Ledger with the balances in Loan Ledger.
- Examine statement of accounts sent by foreign financial institutions to Govt. of India with NTPC books.

- Check amount reimbursed and other relevant details and verify its entry in the development credit control register.
- Check computation of interest paid to banks \ institutions and compare the amount of interest provided in the relevant loan ledger accounts; verify differences if any, and their adjustment.
- Check whether re-payment of installment of principal and payment of interest are being made in time to avoid penal interest.

D. Consultancy Agreements

- check whether need for consultancy agreement was established and if yes offers for consultancy services have been invited from the parties short-listed \ empanelled.
- Whether recommendation of the department concerned has the approval of competent authority.
- Whether terms of reference, time schedule etc. incorporated in the contract is in conformity with the request for consultancy services.
- Verify that the rates and fees charged are as per the agreed payment schedule.
- Check if the report submitted has complied \ covered all items of reference
- To examine the follow up action in consultants report.

E. Performance \ Operations Audit

- actual consumption of inputs such as coal and furnace oil, etc. is they in conformity with the norms set out in the D.P.R.
- Compare actual cost of generation with that envisaged in the Feasibility \ Project Report and analyse major variances and remedial steps initiated.
- Review cases of major breakdown of machinery due to lack of proper or preventive maintenance or negligence and highlight avoidable losses.
- Check if consumption of cooling water, chemicals etc. are within the laid down norms.
- Whether the payment of water charges to the State is as per the terms of the agreements.
- Whether the expenditures incurred on the maintenance of the plant and machineries are justifiable and covered by adequate budget provisions.
- Whether the expenditure incurred on the maintenance and upkeep of the Township and Guest Houses are economical commensurate with income therefrom.
- Whether the supply of the fuel is as per the agreement.

- Whether the dues (demurrages, compensation for the loss of stipulated quality and short supply) from the fuel suppliers (coal, gas and oil) are released without any lapse.
- Authority under which the statutory levies are payable and in case of litigation adequate follow-up action taken needs to be verified.
- Economy in utilisation \ disposal of fly ash.

F. Stores

- Whether proper action is taken for the utilization \ disposal of non-moving \ slow moving \ obsolete items of stores and spares.
- Whether physical verification of stores & spares is carried out periodically and shortages \ excesses found are adjusted promptly after proper investigation.
- Review of write off of cases to determine the competence of the authority.
- Whether minimum and maximum \ reordering levels of stock of various items of stores were been fixed and adhered to.
- Whether surplus \ obsolete stores and spares are identified and disposed of periodically.
- Whether actual consumption of stores \ spares Company favourably with the norms laid down.

31.20 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction:-	
Southern Region Transmission System-I, Bangalore -	Annual
Southern Region Transmission System-II, Secunderabad-	Annual

CHAPTER 32

POWERGRID CORPORATION OF INDIA LIMITED

32.1. INTRODUCTION

The National Power Transmission Corporation Limited, renamed Power Grid Corporation of India Limited (PGCIL) in October 1992 was set-up under the administrative control of the Ministry of Power in October 1989 with the objective of promoting to establish and operate regional and national power grid so as to facilitate transfer of power generated mainly by Central Sector Thermal, Hydro and Gas based projects across the country with reliability, security and economy. The assets and liabilities related to transmission lines of National Thermal Power Corporation of India Limited, North Eastern Electric Power Corporation Limited and National Hydro Electric Power Corporation Limited was transferred to the PGCIL in pursuance of Government of India order of July and November 1991. Since its formation, the Company has undertaken various generation lines, power evacuation and grid strengthening projects and executed inter-regional links and unified load dispatch and communication centers. As on March 31st 2006 PGCIL is operating a total of 82,354 Ckt. Km (Circuit Kilometers) of Transmission line Network and **135** Substations as on March 31, 2011. The company is having 93,050 MVA Transformation Capacity and 22,400 MW (Approx) Interregional Capacity Further, in the recent past the company has also ventured into a new area of telecom business as Internet Service Provider with Telecom NLD of **20,733** Km Optical Fibre Network.

32.2. Objectives

The Company has the following objectives: -

- Undertake transmission of energy by constructing inter-State transmission system;
- Discharge all functions of planning and coordination relating to interstate transmission system;
- Exercise supervision and control over the inter-state transmission system by efficient operation and maintenance of transmission;
- To facilitate private sector participation in transmission system through independent private transmission company joint ventures;
- To assist various SEBs and other utilities in up gradation of skills;

- To provide consultancy service at national and international levels in transmission sector based on the in-house expertise developed by the organization; and
- To participate in long distance trunk telecommunication

32.3. Capital structure

The authorized and paid up capital of the Company as on 31st March 2011 were Rs.10,000 crore Rs.4629.73 crore respectively.

32.4. Organisational set up

The Company is under the administrative control of the Ministry of Power and is managed by the Board of Directors. The affairs are managed by the Board of Directors headed by a Chairman *cum* Managing Director (CMD), assisted by Director (Finance), Director (Personnel), Director (Project), Director (Personal) and part time \ *ex-officio* directors, nominated by the Government of India. The Board takes all major policy decisions and approval of the Government of India is obtained, where required.

32.5. AUDIT JURISDICTION

The Company has its Corporate Centre at Sector 29, Gurgaon (Haryana) and has 16 Regional Office scattered all over India headed by the Executive Directors.

Southern Region-I, Secunderabad and Chennai and Southern Region-II, Bangalore are brought under audit jurisdiction of this office from March 2009, from MAB –II, New Delhi. Southern Region-I has operational jurisdiction spread over the entire State of Andhra Pradesh and a part of Karnataka State (Munirabad Sub-Station). Southern Region-II, bifurcated from the Southern Region-I with effect from 1st April 2001, looks after the Planning, Engineering, Construction, Operation and Maintenance of transmission lines in portions of Karnataka, Kerala, Tamil Nadu and Union Territory of Pondicherry along with associated facilities relating to Western Region and Southern Region-I Central Transmission lines.

32.6 Subsidiaries & Joint Ventures

The company has 100 % owned subsidiary and had entered into many joint venture partnerships with equity participation as shown below:

Subsidiary

Power System Operation Corporation	100 %
------------------------------------	-------

Joint Venture Companies

Powerlinks Transmission Limited	49 %
Torrent Powergrid Limited	26 %
Jaypee Powergrid Limited	26 %
Parbati Koldam Transmission Company Limited	26 %
Teestavalley Power Transmission Limited	26 %
Northeast Transmission Company Limited	24.93 %
National High-power Test Laboratory Private Limited	25 %
Energy Efficiency Services Limited	25 %

32.7. AUDIT NORMS

Audit of all the Regional office are conducted annually. The audit of the regional offices would be planned in such a way that while conducting the audit of the region at least on substation depending upon the activity as well as expenditure involved would also be covered.

32.8. CONTRACT AUDIT

The company is constructing number of transmission lines, substations, system \ grid strengthening schemes as well as projects relating to the diversification to the telecom sector. For this purpose, number of letters of award is being placed every year on private contractors by inviting open tenders both locally as well as globally. Audit of these contracts are also conducted annually by covering all the contracts of Rs. 5 crore and above. The audit of the contracts are to be carried out in two phases *viz.*, award stage and execution stage.

32.9 RISK AREAS

- Creation of strong and vibrant National Grid in the country to ensure the optimum utilization of generating resources, conservation of an eco-sensitive right of way and the flexibility to accommodate the uncertainty of generation plans.
- POWERGRID entrusted with the responsibility of controlling the existing load dispatch centres in the country in order to achieve better grid management and operation. POWERGRID undertook the unified load dispatch and communication project (ULDC) under which modernized load dispatch facilities have been established in each of the five regional centres. The establishment of a national load dispatch centre is also required.

- Restoring power in quickest possible time in the event of any natural disasters like super-cyclone, flood etc. through deployment of Emergency Restoration Systems.
- The company is constructing number of transmission lines, substations, system \ grid strengthening schemes as well as projects relating to the diversification to the telecom sector. For this purpose number of technically qualified private contractors are to be appointed at competitive rates and ensure timely completion of work
- The electric power distribution system in many parts of India is in need of modernisation, capacity expansion and sectoral reform. Government of India has taken a number of initiatives to improve electric power distribution in general and rural electrification in particular. For success of the reform programme such as Accelerated Power Development Reform Programme, POWERGRID has to monitor the development of 178 electricity distribution schemes spread over 18 states, covering urban and semi-urban areas.

Audit checks:

Following points may be seen while conducting the audit of contracts:

A. Award stage:

- Check if procedure prescribed, including World Bank Guidelines for tendering, award of contracts etc. are being followed
- Check if only bidders fulfilling the qualifying criteria in the bidding process are allowed to bid
- Check if Evaluation report \ comparative statements are prepared properly and that lowest quoted amongst the financially and technically suitable bids is given the award or else reasons are recorded for the same for awarding the work to the higher bidder with the approval of the competent authority..
- While preparing the comparative statements cost compensations on account of commercial deviations \ exceptions, if any have been considered wherever applicable.
- The rates finalized \ negotiated have been included in the letter of award including escalation.
- Ensure that there are no inherent ambiguities in the drafting the terms and conditions of agreement \ contract.
- Check that sufficient safeguards are built-in, while drafting the terms and conditions of the agreement to take care of the interest of the company.

B. Execution stage

The Detailed Project Report and letter of award may be studied thoroughly and following points may be examined:

- It may be seen that all the statutory clearances like environment and forest clearances as required are obtained before the commencement of the execution has been obtained
- It may be seen whether the project was completed as per the schedule. If not, the financial impact of stage wise delays may be quantified and commented upon.
- In the cases of delays whether the liquidated damages as per the terms and conditions of the agreement were levied and recovered. If liquidated damages were waived, ensure that decision had the written approval of competent authority.
- compare project cost estimates with abnormal variations and satisfy that they are not due to defective planning and that the reasons assigned by the management are acceptable.
- Check if Price variation claims are regulated as per the terms of the agreement and claims beyond the scheduled date of completion are disallowed
- Review the minutes of project review meetings so as to find out the significant developments in execution of projects.
- The bank guarantee furnished by the Contractors is not released before the closing of contract and the same is renewed from time to time.
- The construction of Transmission System is to be planned in such a way that its completion schedule matches with the completion schedule of the Generation Project and the transmission system is not kept idle for long time. Any mismatch between the generation and transmission system needs to be examined and commented.
- The capacity of the transmission may match the generation, excess capacity affects the tariff and burdened the consumers. Excess capacity, if any, is required to be examined.

32.10 Inventory Control:

The inventory control is one of the most important spheres of stores management i.e. assessment of requirement, procurement of stores, storage, distribution arrangements and disposal of scrap, initiatives taken to minimize inventory and effectiveness of the mechanism to establish and maintain inventory standards.

32.10.1 System of Purchase \ procurement of stores and spares

The Company procures components, spares and stores for operation and maintenance of transmission lines and associated sub-stations as per the approved “**works and procurement policy and procedures**”. To have a broad based approach and to develop alternate potential source for procurement of inventory of stores and spares, Works and Procurement policy and procedure document provides for calling of global tenders, limited tenders depending upon the nature and value of the contract.

Audit Checks

The following points are to be seen in the purchase procedure \ policy of the companies:

- Whether the policy has been revised periodically based on the experience gained in the operation and maintenance of generating stations \ transmission lines?
- Whether these companies have a policy of vendor development, rating and updation to avail of the most competitive prices and to obtain services of quality performers
- Check justification to procure on single \ limited tenders’ basis.
- analyse cases of high value procurement in excess of norms prescribed, leading to blockade of funds and consequential loss on account of inventory carrying costs;
- identify cases of emergency procurement on account of failure to keep minimum level \ limits of stock of stores and spares leading to extra expenditure;
- check if procurement of materials was in the most efficient and economical manner
- Whether the companies entered into rate contract with the major suppliers for supply of spares and consumables to reduce lead time and stock holdings in excess of norms?
- whether the companies have classified inventory into ABC categories and regularly carried out ABC analysis to monitor the high value items and keep inventory within the norms?

32.10.2 Fixation of lead-time for procurement of material

Lead time is the time required for procurement of material or the time lag between the receipt of indent and physical receipt of material in stores. It is fixed on the basis of past experience and shall cover administrative \ internal lead time required for processing the indents, supplier’s lead time for completion of manufacturing and transportation lead time for material to reach stores.

Audit Checks - The following points are to be examined \ analyzed:

- Whether the total lead time fixed for procurement was unusually long and led to fixation of norms for inventory holdings at higher levels and consequential loss due to high inventory carrying costs?
- Adequacy of procedure followed for fixing internal \ external lead time for various imported and indigenous sources of stores and spares;
- Check if lead times are fixed and orders placed based on production schedules only.
- Whether the actual external lead time was more than norms fixed on account of delays in opening of letter of credit or other avoidable reasons

32.10.3 System of receipt, storage and custody of inventory

Stores Management Systems Manual (SMSM) volume I of the PGCIL laid down the detailed procurement procedure for receipt, storage and custody of materials received from suppliers on the basis of purchase orders. The consignments received are checked thoroughly as per the documents such as invoices, RR \ LR \ PO *etc* along with physical check of the material \ packages. In case of apparent \ actual shortage \ damage a certificate is obtained from the transport agency and specific remarks obtained from the carrier on unloading report. After inspection a joint \ *ex parte* report is prepared and a copy of the same is handed over to the supplier for the materials inspected, accepted and received duly supported by joint \ *ex parte* inspection report and the respective dispatch documents Stores Receipt Voucher (SRV) is prepared. Thereafter, materials shall be entered in Top History Card Stock Ledger and Bin Card and subsequently the materials are stored and handled as per the standard procedure indicated in SMSM (volume II) i.e. Custody of Materials.

Audit Checks - The following points to be examined in audit:

- Check inventory receipts without purchase order or received before issue of purchase orders?
- Check for any abnormal delays in inspection after receipt of material.
- Check if inspection was kept pending deliberately to avoid inflation of inventory.
- Check if timely action was initiated for return and replacement of rejected material

32.10.4 System for issue of inventory:

Stores Management Systems Manual of the PGCIL prescribed the procedure to be followed for issue of inventory. As per the procedures laid down, materials are issued from store to Indentor on the basis of duly approved Store Issue Voucher (SIV). For issue of any material from store, Gate Pass containing the details of SIV, material description, quantity \

stock ledger reference and bin card reference is also issued. Entry for the material issued is also made in the respective stock ledger and bin card.

Audit checks: - The following would be analysed in audit:

- Check for any fictitious issue in order to reduce the value of inventory holding, especially at the year end.
- Ensure that indents are as per the prescribed procedure and cases requiring sanction \ approval of the higher authority have been indented after obtaining prior approval of the competent authority.
- Critical review of the indents is made to ensure that material indented and that actually needed are the same?

32.10.5 Inventory of Surplus \ Obsolete and Scrap

As per Para 2.7.1 of the Stores Management Systems Manual (Volume I), surplus material are generated out of:

- slow \ non moving items over two years but not effectively utilised \ used except insurance spares;
- usable material left over after completion of construction and not required to be retained as per the norms; and
- material held in the store for more than the specified stock holding norms.

Surplus inventory is declared as scrap by a standing committee designated as Scrap and Surplus Identification and Disposal (SSID). Obsolete inventory be declared as scrap for disposal.

Audit checks - The following points are to be examined in this regard:

- review of system of disposal of high value scrap items including tendering process;
- examine \ analyse cases involving abnormal delay in identification of surplus \ scarp and their disposal and consequential loss on account of inventory carrying costs and deterioration in value.
- analyse reasons for holding huge inventory over and above norms; and steps taken for utilisation \ disposal of inventory identified as surplus;
- check for cases of procurement of items already declared as surplus and loss on account of delay in disposal of surplus inventory;
- loss on account of blockage of funds due to high inventory holding;
- procedure and periodicity followed for assessment of surplus \ non-moving and slow moving inventory in respect of high value items of inventory;

- adequacy or otherwise of monitoring of inventory holding levels and liquidation plan for surplus \ obsolete stores.

32.11 Diversification to Telecom Business:

With the vision to bridge the digital divide in the country and ensure that benefits of information revolution reach the entire length and breadth of the country, POWERGRID has diversified into Telecom utilizing right of way on its Extra High Voltage Power Transmission Network infrastructure in the country with its brand name POWERTEL. Among the telecom players, POWERGRID is the only utility in the country having overhead optic fibre network using OPGW (Optical Ground Wire) on power transmission lines. POWERGRID has an all India Broad Band Telecom Network of about 25000 Kms which is likely to be doubled in 2-3 years with multiple self resilient rings for backbone as well as intra city access networks connecting more than 200 cities and town across the country and ensuring a reliability of more than 99.9%. POWERGRID has following Telecom Licenses:

- Infrastructure Provider Category - I (IP-I license)
- NLD License for providing end-to-end bandwidth
- ISP category 'A' license to provide internet services in the country

Services provided on POWERGRID's Network:

The Network deploys 32 wavelength DWDM systems, scalable to 128 wavelength system, connecting all the metros and remote locations in North East and Jammu & Kashmir. The balance network deploys SDH (STM 16/STM 4) systems. The following services are available on POWERGRID's network:

- E1/E3/DS3/STM1/STM4/STM16 Leased Line
- Ethernet Private Leased Line
- Multi-site LAN Interconnect plus Internet Access
- Internet bandwidth

Unique Features of POWERGRID's Telecom Network

Most of the POWERGRID's optic fibre backbone network is laid overhead on the extra high voltage Power transmission lines .The Telecom network on the Transmission lines has proved to be sturdy and secure, rodent menace free, vandalism proof which offers it distinct advantage over the underground optic fibre. The other advantages of leasing bandwidth capacity on POWERGRID's Telecom route are:

- Instant bandwidth allocation on POWERGRID's Telecom route
 - End to end connectivity
 - Instant upgradation to higher capacity
 - Better Service Level
 - Services catering to the specific needs of the customers
 - High reliability, high quality service in a cost effective manner.
- **Audit checks** – The following points needs to be examined in audit
 - Check for approvals of the Government of India has been obtained for diversification in to telecom sector;
 - whether all the lines commissioned have been leased out to the parties immediately? The loss of revenue due to delay if any to be commented; and
 - system of leasing out telecom lines to be examined.
 - Check if sufficient safeguards are built into the lease agreements to protect company \ Government interests and revenue.

32.12 INTERNAL AUDIT

The Company is having internal Audit wing headed by the AGM \ DGM (Finance and Internal Audit). In addition, internal audit of some of the units is also entrusted to the private firms of the Chartered Accountants on year to year basis.

32.13 SECURITIZATION OF DUES FROM SEBS

State Electricity Boards were on the verge of financial collapse, owing to mismanagement, high transmission and distribution losses, irrational tariffs, degraded plant and machinery and bloated workforce. Large amount of dues owed by the SEBs to the CPSUs was a major impediment to reforms and an Expert Group was constituted to (a) recommend a one-time settlement of outstanding dues, and (b) recommend a programme for medium-term capital restructuring and reform of the SEBs With a view to allow the State Electricity Boards to take the urgent attention and call for restructuring of the electricity industry on modern lines; extensive reforms in the system of fixation of tariff, reduction in operational inefficiencies in generation, transmission and most of all, distribution; upgrading the network equipment; institutional changes for ensuring accountability and professional management, the Government of India accepted the

Ahaluwalia committee's recommendations and introduced securitization of past dues scheme. The scheme was effective from 1st October 2001 and all amount payable by the SEBs till 30th September 2001 shall be covered under this scheme.

Audit Checks- In this regard the following audit checks would be applied.

- Past dues has been reckoned as per the scheme
- Check if 50 % of the interest outstanding was waived
- The bonds relating to the entire overdue viz. principal plus 50 % of outstanding interest -have been issued by the respective States
- Check if any incentives due for better management were received and accounted
- Check that bonds issued are at rates identical to bonds issued in connection with the market borrowings of State Governments
- Repayment or redemption of bond has been made after every six month commencing from 1st October 2006 and that no arrears are pending.
- The bonds issued by the State Government through RBI shall carry a nominal tax-free interest at 8.5 per cent per annum payable once every six month. Whether such interest has been duly accounted for and received?
- Whether there is any disputed amount? The amount awarded after the settlement of dispute would carry rate of interest at the rate of 12 per cent per annum.
- Whether all the states have signed the securitization of dues agreement if not, the reasons for the same.
- Check if all the SEBs have opened and maintained Letter of Credit equivalent to 105 per cent of their average monthly billing for the preceding 12 months.

32.14 FIXATION OF TARIFF

In exercise of the power conferred under section 28 of the Electricity Regulatory Commission Act, 1998, Central Electricity Regulatory Commission (CERC) has been established. The CERC vide its notification dated 26th March 2001 called CERC (Terms and conditions of tariff) Regulations, 2001 has prescribed the terms and conditions of tariff effective from 1st April 2001. These regulations shall remain in force for a period of three years unless reviewed earlier or extended further by the Commission. These regulations apply where the capital cost based tariff is applicable including Inter- State Transmission.

Audit checks - In fixation of tariff the following audit checks are to be applied:

- In the case of new projects, a utility is required to submit the petition to CERC in the prescribed format for determination of tariff at least 3 months in advance of the anticipated date of completion of the project based on the project cost as proved by the competent authority. The delay, if any, in this regard needs to be examined and commented.
- during the tariff period if the capital cost has increased by 20 *per cent* of the approved project cost, check if Tariff Revision petition has been filed with the Commission.
- Check that any revenue from sale (other than the fuel cost) of power prior to commercial operation of the unit is taken as reduction in capital expenditure and not as net revenue.
- Check if extra rupee liability towards interest and loan repayment actually incurred by the Company due to foreign exchange rate variation is claimed and accounted for as per Accounting Standard 11 issued by the Institute of Chartered Accountants of India.
- Check that all capacity charges \ fixed are levied \ paid in accordance with the methodology laid down in the terms and conditions.
- Whether the transmission system has been declared on commercial operation from the date of charging the transmission system to its rated voltage or seven days after the date on which it is declared ready for charging but not able to charge for reasons not attributable to its suppliers or contractors. (Para 4.2 of CERC notification *ibid*). Any delay in this regard needs to be analyzed and commented upon.
- If the transmission system has not been declared on commercial operation as required, any interest during construction (IDC) and incidental expenses during construction (IEDC) capitalized with a view to increase the capital cost is to be commented in audit as it would inflate the tariff.
- The actual capital expenditure incurred on completion of the project shall be the criterion for the fixation of tariff. Where the actual expenditure exceeds the approved cost the excesses as approved by the competent authority shall be deemed to be the actual capital expenditure for the purpose of determining the tariff provided that excess expenditure is not attributable to the Transmission Utility or its suppliers. In this regard critical analysis of the excess expenditure if any needs to be done in audit and its impact on tariff to be worked out if excess expenditure could be proved to be avoidable.

- While computing the tariff the recovery of annual transmission charges consisting of interest on loan capital, depreciation, advance against depreciation, operation and maintenance expenses, return on equity and interest on working capital is to be considered. These elements are required to be checked in audit so as to find out that each component has been correctly worked out for the purpose of claiming tariff.

32.15 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts - Transaction:-	Annual
Southern Region Transmission System-I, Bangalore -	Annual
Southern Region Transmission System-II, Secunderabad-	Annual

CHAPTER 33

CONTAINER CORPORATION OF INDIA LIMITED

33.1 INTRODUCTION

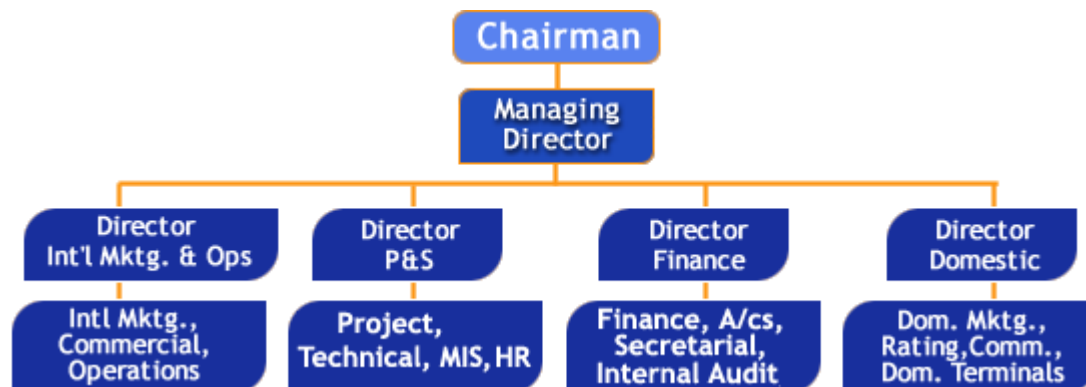
Container Corporation of India Limited (CONCOR), under the Ministry of Railways (MOR), was incorporated in March 1988. The Company commenced its operations in November 1989 by taking over 7 existing inland container depots (ICDs) of Indian Railways (IRs) situated at New Delhi, Bangalore, Ludhiana, Amingaon, Guntur, Anaparti, and Coimbatore.

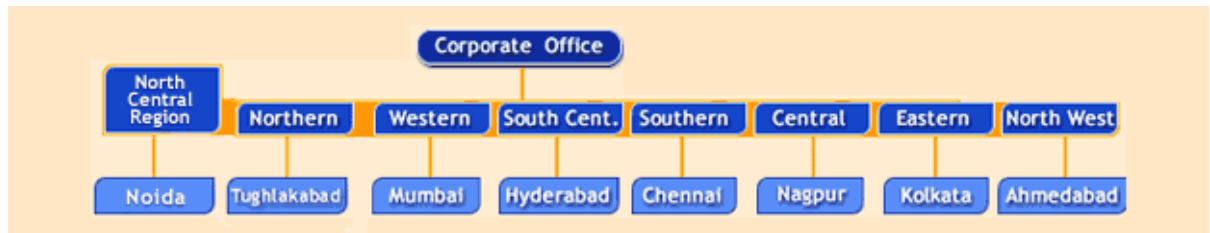
The company has 8 Regional Offices of the Company are located at Central Region at Nagpur, Eastern Region at Kolkata, Northern Region at New Delhi, North Central Region at Noida, North western region at Ahmadabad, South region at Chennai, South Central Region at Secunderabad and Western Region at Mumbai.

The Southern Regional office established in November 1989 at Chennai and South Central Region established in 1990 at Secunderabad are brought under audit jurisdiction of this office from MAB-II, New Delhi from March 2009. The Southern Region of company is having eight Container Terminals located in the States of Tamil Nadu, Karnataka and Kerala in operation. The South Central Region of the Company is having three ICDs at Sanathnagar, Guntur and Desur and one CFS at Visakhapatnam. The Regions caters to the needs of Container Transportation of imports through Ports at Chennai, Cochin and Tuticorin. The work of handling of loaded and empty containers is being carried out through outside agencies by awarding contracts.

33.2 Organizational structure and setup:

Organizational structure is as shown below:





33.3 OBJECTIVES:

Main objectives are to:

- be a customer focussed, performance driven, result oriented organisation, focussed on providing value for money to customers.
- strive to maximise productive utilisation of resources, deliver high quality of services, and be recognised as setting the standards for excellence.
- constantly look for new and better ways to provide innovative services. We will aim for customer convenience and satisfaction, learn from our competitors and always strive for excellence.
- set measurable performance goals to support the objectives and mission of our organisation and work as a professional, competent and dedicated team for the organisation to achieve excellence in all areas of our business and operations by benchmarking ourselves with our competitors.
- follow highest standards of business ethics and add social value for the community at large by discharging social obligations as a responsible corporate entity.
- maintain absolute integrity, honesty, transparency and fair-play in all our official dealings and strive to maintain high standards of morality in our personal life.
- carry on business of multimodal transport operators, general carriers of international and domestic cargo within India and abroad by all modes and mixes such as road, rail, sea, air, inland water transport and ropeways;
- set up and manage cargo handling terminals such as Inland Container Depots (ICDs) and Container Freight Stations (CFSs) at suitable and feasible locations for facilitating export from inland locations;

- provide warehousing facilities at ICDs for imports, exports and domestic at suitable locations in India and abroad;
- act as clearing and forwarding agents for facilitating cargo movements within India and abroad; and
- to provide technical know-how and management services to any person, firm or body corporate whether in India and \ or outside India in the public or private sector in the fields of transport, warehousing, management by rail, ports, inland terminals and other acts of multimodal transport of goods.

33.4. Capital structure:

Authorised Share Capital & Capital Investment

The authorized and paid up capitals of the company as on 31.3.2011 are Rs. 200 crore and Rs.129.98 crore respectively. Central Government is holding 63.09 % of the share capital as on 31.3.2011.

33.5 price escalation formula:

The Company had adopted the following formula for price escalation clause in container handling and transportation contracts:

$$\frac{X1-X0}{X0} * 100\% * 40$$

X0 10

X1 represents HSD price after 24 months from the date of commencement of the contract

X0 represents HSD price at the date of commencement of the contract.

40 represents percentage of the cost contributed by HSD.

Its practice is fixing tariff on “cost plus” basis i.e. recovery of all costs of services, and profit margins on the principle of “what traffic can bear”

33.6 INTERNAL AUDIT

Internal Audit Cell (IAC) headed by the Group General Manager (Finance) of the Company was set-up in October 1996. The Internal Audit of all the units and the corporate office is being performed by the firms of Chartered Accountants.

33.7 Major activities & diversification into new areas:

CONCOR provides logistics services and support for both the international and domestic cargo industry in India and is currently the only means by which shippers may obtain containerized freight transportation by rail in India.

CONCOR's core business comprises three major activities: viz. carrier (transportation of containerized cargo), terminal operator (18 export-import container depots, 13 exclusive domestic container depots and 30 terminals for handling of containers) and warehouse operator.

A) Carrier

Though rail is the mainstay of its transportation business, some CONCOR terminals are exclusively road-linked. 95% of the transportation activities are by rail and the balance is by road. Indian Railways provides the actual rail transportation services to CONCOR at the cost of a haulage charge fixed annually by the Railways at a TEU \ KM rate. This charge is based on the fully distributed cost of the Railways plus a profit margin.

The rail freight cost to CONCOR is approx. 74% of its costs and is the major variable for determining profitability. When the company first started business, Indian Railways owned the entire infrastructure and assets connected with rail transportation. CONCOR has acquired state of the art high speed container flats (BLC wagons), capable of running at 100 kmph, and has progressively introduced them on major container circuits. CONCOR has also purchased old BFKI wagons from Indian Railways. These have been since upgraded and retrofitted to provide improved service quality and better transit times. Currently, CONCOR owns all the container flat wagons which constitute 73% the wagons which are deployed over the IR system exclusively for the carriage of containers. The balance are mainly composed of over-aged IR box wagons unfit for loading their own goods, and modified for carriage of containers. The company has recently also attempted some movements through coastal shipping by contracting these services from private operators.

B) Terminal Operator:

Handling of Exim cargo can only be done from terminals notified under the Customs Act which entails some legal responsibilities on CONCOR as the Custodian. Domestic cargo cannot be handled under any such regulatory environment. Terminals provide a spectrum of

facilities in terms of warehousing, container parking, repair facilities, and even office complexes. As CFS operator, CONCOR offers the following value added services:

- Transit warehousing for import and export cargo
- Bonded warehousing, enabling importers to store cargo and take partial deliveries, thereby deferring duty payment
- Less than Container Load (LCL) consolidation, and reworking of LCL cargo at nominated hubs
- Air cargo clearance using bonded trucking

C. Diversification:

The business, till recently has been entirely restricted to movement within India. However, the company has recently experimented with providing carriage of containers overseas, through a business agreement with a shipping agency, on the Chennai-Singapore, Chennai-Haldia-Bangladesh-Myanmar sector. This is still at the experimental stage. The company is also planning to enter into the cold supply chain business. This envisages the provision of infrastructure and logistics services for a series of controlled atmosphere cold stores and a suitably matching distribution network for fruits and vegetables. This new venture is in an advanced stage of planning with simultaneous experiments with trial runs.

33.8 Corporate Planning & Programming:

Company entered into a Joint Venture with M/s. MAERSK A/S Copenhagen for third birth at JN Port has placed CONCOR in the category of Port terminals operators. CONCOR has also entered into a JV with Dubai Port World for setting up & managing container terminal at Vallarpadam Port. This has opened new possibilities for further expansion in this field.

As part of overall strategy of expansion, the company is examining for making an entry into areas of Coastal Shipping to compliment its position as a multi-model logistics service provider.

33.9. Management Information System:

IT forms the backbone of any service industry. CONCOR is using various online applications like Export / Import Terminal Management System (ETMS), Domestic Terminal Management System (DTMS), Oracle Financials-ERP, HR-Payroll system etc. based on

Centralized architecture deployed through Citrix environment and running over VSAT based hybrid network

Company provided facility for electronic filing (e-filing) of commercial documents for EXIM locations to enable customers like Shipping lines, Importers, Exporters and CHA's to file the required documents online- for process and take necessary printouts of processed output through web from anywhere without physically coming to terminal / ICD. Digital Signatures have been integrated with e-filing to make the system more secure.

CONCOR has its own Web Server for providing web interface to the commercial applications i.e. ETMS, CCLS, DTMS etc. enabling its customers to access information regarding their shipments by means of the website. An integrated track and trace system was also implemented on CONCOR website for providing Container Tracking Details, Train Summaries and current train running position.

Web interfaces to access ETMS have been developed for providing queries such as list of containers arrived/ departed, Container status, PDA balance etc. Company had also implemented ERP system for Human Resources, Financial Management and Payroll.

33.10 AUDIT COMMITTEE

The Company has constituted an Audit Committee comprising of all non-executive Directors of the Company.

33.11. RISK AREAS

- Setting up terminals such as Inland Container Depots (ICDs) and Container Freight Stations (CFSs) at suitable and feasible locations for facilitating export from inland locations;
- Providing warehousing facilities at ICDs for imports, exports and domestic at suitable locations in India and abroad;
- The rail freight cost to CONCOR is approx. 74% of its costs and is the major variable for determining profitability. The company is required to provide the flat-wagons for carriage of containers in order to meet with the growth in demand as railways has been unable to provide the same due to shortage of resources.
- CONCOR owns all the container flat wagons which constitute 73% the wagons which are deployed over the IR system exclusively for the carriage of containers. Over-aged

IR box wagons unfit for loading their own goods, and modified for carriage of containers. These are mostly vacuum-braked stock and provide unreliable service and are being phased out.

- Handling of Exim cargo can only be done from terminals notified under the Customs Act which entails some legal responsibilities on CONCOR as the Custodian.
- CONCOR envisages the provision of infrastructure and logistics services for a series of controlled atmosphere cold stores and adequate planning for suitably matching distribution network for fruits and vegetables to be made

33.12 Audit Checks

▪ Review of Systems

- The financial and operating systems may be reviewed during each phase to check the efficacy of internal checks and controls. Whether the procedure and flow of documents are in line with the prescribed systems may be specifically commented upon. System Audit may cover operational aspects also. Due emphasis to be given to information systems audit, and specific comments thereon may be offered.
- Verification of compliances of the previous audit reports, critical scrutiny and report on non compliances.
- Identification of equipments lying idle and equipment availability. Report on any unusual expenses being incurred in running the equipment.
- Opening of new ICD and terminals-their feasibility and profitability-projections versus actual needs to be studied and suitably commented upon

iv) Revenue

- To check sources of revenue from various jobs like freight (including hazardous cargo surcharge), handling, transportation, stuffing, destuffing, ground rent, wharfage and demurrage
- Refunds \ Waivers of ground rent and wharfage be checked to ensure proper authorisation and ascertaining reasonableness thereof.
- Verification of revenue with reference to the Circulars issued by corporate office. Variation in rates not defined by circulars be brought to the notice of management.
- to check whether the collections are banked on the next day or not and timely

- Transfer of funds to be checked with respect to instructions issued to Bankers by Corporate Office. Deviations, if any, are to be reported and consequential loss of interest to be recovered. Transfer of funds is to be cross verified with the Corporate Office.
 - Bank reconciliation statements are to be checked and unexplained debits a \ credit not cleared within reasonable time is to be reported.
- v) **Payment to Contractors**
- Job orders to be scrutinized for verification of bills.
 - Checking of rates \ security deposit \ deductions from the copy of Agreement.
 - Accounts department may cross check the bill from the revenue collection register for detection of income leakage.
 - Job order register to be verified with the job orders issued.
 - All running account bills are to be verified with measurement books
 - check for recoveries in respect of expenses incurred on Handling, and Transportation Charges.
 - Check if all statutory levies are deducted from contractors bills including interest on mobilization advance
 - check if all statutory levies recovered are remitted into government accounts in time
- vi) **Payment to Railways**
- Check freight rates fixed by Railway and whether fortnightly payments are being made.
 - Containerwise details to be checked with the IWBs.
 - Reconciliation with Railways.
 - Checking in respect of Freight paid to Railways and Land License Fees.
- vii) **Inter-Unit Accounts**
- Verify debit \ credit notes and whether the same are raised within reasonable time and with the approval of competent authority
 - Check quarterly reconciliations.
 - Debit notes for containers are to be reconciled and differences, if any to be reported.
- viii) **Others**
- For export transactions, Inward Way Bill (IWB) is to be prepared after issuing stuffing order. Time lags if any are to be reported.

- For Import \ Export transactions records relating to goods \ merchandise brought into the warehouse are to be checked. Records relating to goods kept for stuffing, examination etc. to be verified. Claims for missing goods to be scrutinised.
- Transporter bills to be verified for movement of goods to exporters premises, warehouse, CWC, CFS, Others etc.
- Purchase to be checked with reference to quotations \ Tenders. Authorizations for purchases are to be verified. Check whether cash payments are made only in emergent situations.
- To check whether. Regional Heads are violating \ exceeding financial limits set by Corporate Office.
- check eligibility for claiming discounts including approvals from competent authorities
- Contracts awarded are to be checked with reference to the instructions contained in the "Tender System and Evaluation of Tenders" manual issued Dated 17.05.1999.
- To report any undue detention of containers or container lying at the Depot for long periods.
- To report containers taking longer turnaround period for clearance at particular depot.
- Payments to customs department are made according to the prescribed norms.
- Check to ensure that tariff charged for contracts accepted are as per the rates prevailing and that no undue discounts are offered without proper approvals.

33.13 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction:-	
Southern Regional Office, Chennai -	Annual
South Central Region, Secunderabad-	Annual

CHAPTER 34

AGRI DEVELOPMENT FINANCE (TAMIL NADU) LIMITED

34.1 Introduction:

Agra Development Finance (Tamil Nadu) Limited was incorporated under the Companies Act 1956, on 14.02.1997 to transact the business of extending credit and other facilities to enterprises engaged in Agriculture and other allied activities for promotion, expansion, commercialization and modernization of agriculture related activities in the State of Tamil Nadu. Accordingly financial assistance in the form of term loans, subscriptions to Equity & Debentures, guaranteeing loans and obligations, confirming \ endorsing letters of credit, providing market research facilities, consultancy services etc. were the main objects to be pursued by the company on its incorporation. Further, rural development (both social and economic) programmes were included in their main objects from September 2008. The company was declared as Deemed Government company under section 619 (B) of the Companies Act, 1956 vide letter No. 384 \ CA-V \ 30-2006 dated 28th August 2006 of the Comptroller and Auditor General of India.

34.2 Share Holding Pattern

The company's authorized share capital is Rs. 25 crore and paid up capital amounted to Rs. 9.98 crore. NABARD holds 52.10%, Government of Tamil Nadu 18.04%, Public Sector Banks 17.84%, Private Sector Banks 8.02% and the balance 4% is held by Corporate and individuals.

34.3 Operations

The company disbursed loans aggregating to Rs. 10.66 crore, funding 13 projects out of which four became NPA accounts and one was under liquidation. Besides, one ICD (Inter Corporate Deposit) for Rs. 2 crore also became a NPA. In the 36th Board Meeting (held on 12.09.2001) it was decided to stop further lending and to concentrate on recovery of over dues. From 209-10 the company has been extending loans to Micro Financial Institutions and also concentrating on the recovery of over dues. As on 31.03.2011, the company's term

deposits with Banks and in Bhavishya Nirman Bonds of NABARD was Rs.1016.16 lakh and 96.65 lakh respectively.

Consequent to the commencement of micro-financing the company had doubled its income from Rs. 46.74 lakh in 2009-10 to Rs. 92.23 lakh in 2010-11. Company started earning interest without any default from micro financial institutions.

34.4 Organizational set up

The company is headed by Managing Director (on deputation from NABARD) who is vested with administrative and financial powers to manage the day to day activities of the company. A company Secretary appointed on contract basis, looks after the Company`s legal matters besides overseeing the financial aspects. An officer and an Executive Assistant look after the accounts and corporate functions.

34.5 Internal Audit

Internal Audit is conducted by the Company secretary on a monthly basis and reported to the Board. NABARD officials inspect the investments made by the company every month. Progress Reports on the pendency position is sent to NABARD every month. A fortnightly report on the liquidity position of the company is sent to RBI.

AUDIT CHECKS

- Examine all the agreement entered into between the Company and loanee organizations.
- Examine that the loan was given as per guidelines and terms and conditions settled by the Company \ Board.
- Check the opinion \ reports given by the consultants.
- Check when the loan was given, in syndication the terms and conditions settled by other lenders.
- Check whether the required security has been obtained as per agreement.
- Check that documentation is done properly and promptly.
- Check the genuinity \ existence of the security provided.
- In case of default, whether the required steps to recover the amount have been taken promptly.
- Ensure that proper monitory system exists for realization of principal and interest.

- Ensure that no re-scheduling of loan and interest is done by the Corporation without proper authority.
- Examine whether prepayment cases have been dealt with as per agreements and policy of the Company.
- Check the cases of loans made to private parties in detail and whether adequate measures have been taken to safeguard the interest of the Corporation.
- To check all agenda and minutes of the Board of Directors.
- Detailed scrutiny of all bank vouchers, cash voucher and vouchers of the selected month
- All Vigilance \ court Cases

34.6 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction:-	
The Unit of Ramagundam Super Thermal Power Station, Andhra Pradesh -	Annual
Kayankulam Combined Cycle Plant, Alappuzha, Kerala -	Annual
Simhadri Power Project, Vizag, Andhra Pradesh-	Annual

CHAPTER 35

RUBBER BOARD

35.1 Introduction

Rubber Board is a statutory body constituted by the Government of India, under the Rubber Act 1947, for the overall development of the rubber industry in the country. The importance of rubber production in India from strategic and security reasons had been realized by the government during the Second World War period. The rubber growers in India were encouraged to produce maximum rubber required for use during war. After the war, there were growing demands from the growers for setting up a permanent organisation to look after the interests of the industry. Thereupon the Government set up an ad-hoc committee in 1945 to study the situation and to make appropriate recommendation. On the recommendation of this ad-hoc committee, the Government passed the Rubber (Production and Marketing) Act, 1947, on 18th April 1947, and “Indian Rubber Board” was constituted forthwith. The Rubber Production and Marketing (Amendment) Act, 1954, amended the name of the Board as “The Rubber Board”.

Rubber Board functions under the Ministry of Commerce & Industry of the Government of India. The Board has a Chairman appointed by the Central Government. He is the Principal executive officer responsible for the proper functioning of the Board and implementation of its decisions and discharge of its duties under the Rubber Act. The Board has its headquarters complex located at Kottayam in Kerala State. The Chairman’s Office together with the central offices of Administration, Finance & Accounts, Rubber Production, Statistics & Planning and Licensing and Excise Duty departments function in Kottayam. The Rubber Research Institute of India (RRII) the Research Department of the Board, is situated 7 km eastwards in the suburban village of Puthuppally. The Institute is also housed in Board’s own building which is set amidst a 28 ha Rubber Experiment Station. The Training Department of the Board is also housed on an adjacent plot of land in a picturesque building. The following Rubber Companies are promoted by Rubber Board

A. PAMBA RUBBERS LIMITED

Introduction

Pamba Rubbers Limited is a joint venture of Rubber Board and Rubber Producers Societies and small growers. The company was established in 1989 to provide permanent rehabilitation to small rubber growers by collecting sheet rubber, latex rubber, and scrap rubber from them. The Registered Office of the Company is situated at Konni, Pathanamthitta District. The company owns and operates block rubber producing factory located around five acres by the bank of river Achenkovil in Aruvappulam Village, Pathanamthitta District. The processing capacity is 10 tonnes per day. The block rubber produced in the factory satisfies standards set by the Bureau of Indian Standards Marketing and also confirms to its norms. Rubber Board constituted companies in the RPS sector as a welfare measure to the small rubber growers with the purpose of ensuring reasonable price to the produce and to end exploitation by middleman. Company also has direct dealership of estate inputs.

Share Capital:

As on 31.3.2011, the Company's authorized and paid up share capital were Rs. 1.25 crore and Rs. 1.19 crore respectively and Rubber Board had contributed Rs. 75.58 lakh to the Paid up Capital. The Company had availed Rs. 203.36 lakh as loan from Rubber Board and the accumulated interest as on 31.3.2011 was Rs. 36.68 lakh.

Capacity and Production

The Company is mainly engaged in the trading of latex. The Company has leased out its factory to a private party for processing block rubber. The Installed capacity and actual utilization of factory during 2004-05, 2005-06 and 2006-07 were as follows.

Year	Installed Capacity (MT)	Actual Production (MT)	Percentage (%)
2010-11	3000	1434.45	47.81
2009-10	3000	1373.55	45.80

The capacity utilisation has increased from 45.80 % during 2009-10 to 47.81 % during 2010-11.

B. PONMUDI RUBBERS LIMITED

Introduction: Ponmudi Rubbers Ltd is a joint venture of Rubber Board (under the Ministry of commerce, Government of India) and the Rubber Producers' Societies (small village level societies of the Rubber Board). The Company is engaged in production of block (crumb) rubber from scrap rubber. In addition the company also does the trading of rubber latex, rubber sheet, etc. Rubber Board provides Technical and financial assistance to the company. Fully fledged Research and Development (R&D) support has also been provided by the Rubber Board.

Objectives:

- Make available technically specified quality rubber to meet the demand of rubber based industries.
- Develop a feeling of co-operation among the small growers and to organise the small farmers to enhance their bargaining power.
- Relieve the small farmers from the exploitation of the middlemen by functioning as a price supporting mechanism.
- Produce technically specified block rubber known as "Crumb Rubber" making use of the scrap rubber produced by the small rubber growers.

Capital structure

The authorized and paid up share capital were Rs.200 lakh and Rs.126.62 lakh as on 31.3.2011. The company obtained loans from Rubber Board towards working capital, one time settlement and VRS to the tune of Rs. 140.50 lakh, Rs.86.35 lakh and Rs. 15.00 lakh respectively as on 31.3.2011.

Production Performance

The production performance of the company for the years 2009-10 to 2010-11 were

as follows:

sYear	Installed Capacity (MT)	Actual Production (MT)
2010-11	3000	nil
2009-10	3000	nil

C. MEENACHIL RUBBERWOOD LIMITED, KOTTAYAM

Introduction: The Meenachil Rubberwood Limited, Kottayam was incorporated in March 1991. The major activities of the Company are processing of Rubber wood and supply to Indian, European and American markets and manufacture of office and utility furniture for domestic market.

The Registered Office and factory of the Company is situated at Adivaram in Kottayam District, whereas the Administrative office is located at Kanjikkuzhy, Kottayam. Although the Company was incorporated in 1991, the commercial production commenced only in December 1996. The Company sells its products under the brand name 'METROWOOD'.

Share Capital

The authorized and paid up share capitals of the company were Rs.2 crore and Rs.1.82 crore respectively as on 31.3.2011. Rubber Board contributed Rs. 98.00 lakh to the Paid up Capital and also extended a loan of Rs. 1.93 crore as on 31.3.2011.

Apart from the above, the total term loan and cash credit facilities availed by the Company from Bank of Baroda, as on 31.3.2011 was Rs. 95.87 lakh. The interest on short-term working capital availed by the Company from Rubber Board was Rs. 31.02 lakh as on 31.3.2011.

Capacity and Production:

The Company procures rubber logs from various sources. The logs are first subjected to prophylactic treatment. They are then boron treated under high pressure and kiln-seasoned. This process ensures complete protection from decaying of the wood and guards it against attack from fungus and insects. The moisture content of the wood would be in the range of

10% to 12%. The Installed capacity and actual utilization of factory during 2009-10 and 2010-11 were given below:

Year	Installed Capacity (cbm)	Actual Production (cbm)	Percentage (%)
2010-11	2700	528	19.55
2009-10	2100	781	28.91

The capacity utilization had decreased from 28.91 % during 2009-10 to 19.55 % during 2010-11.

Marketing Set-up

The Company has appointed one Carry & Forwarding (C&F) Agent at Kottayam and one Commission Sales (CS) agent at Kochi. The Company bears all expenses of the C&F Depot and pays a commission of 3% to the Agent. On the other hand, the CS Agent is paid a commission of 12

% and he meets all expenses at the CS Depot. In addition to this, the Company makes direct sales to its Indian and overseas

D. RUBBERWOOD INDIA (P) LIMITED, KOTTAYAM

Introduction: The Rubberwood India (P) Ltd, Kottayam was incorporated in February 1998 with the objective of procuring, processing and selling rubber wood products in domestic and international markets. The principal promoter of the company is the Rubber Board. The Company has set up its rubber-wood processing factory at Manganam, Kottayam District. The project was conceived and implemented by the Rubber Board and Kerala State Industrial Development Corporation under the World Bank aided India rubber project to promote and provide for development of Rubber wood industry in the country. Although the unit was to commence commercial production in January 2000, due to various constraints such as delay in obtaining sanction of financial assistance under the World Bank aided India Rubber Project, delay in completion of civil works of the factory etc., the company could start actual production in November 2001 only.

Capital structure

The authorized and paid up share capitals of the company as on 31.3.2011 are Rs.4

crore and Rs.3.53 crore respectively.

Marketing set-up

The company is selling its products through Dealer network. For this purpose, the company appointed dealers throughout India.

Capacity and Production

The production performance of the company for the years 2003-04 to 2005-06 were as follows:

Year	Installed Capacity (MT)	Actual Production (MT)	Percentage (%)
2010-11	8250	2636	32
2009-10	8250	3153	41

The company had availed a medium term and cash credit from Central Bank of India to the tune of Rs. 5.69 crore and Rs. 87.89 lakh respectively as on 31.3.2011. Company had also availed Rs. 2.27 crore loan from Rubber Board and Rs. 96.36 lakh interest is outstanding as on 31.3.2011.

E. Rubber Park India Private Limited

Introduction: Rubber Park India Private Limited was incorporated in December 1997 with the objective of promoting the development of rubber and rubber wood based industries by setting up industrial infrastructure parks. The Company also assists and encourages research and development activities and takes measures to improve the growth of export in such Products. The Company was promoted jointly by Rubber Board and Kerala Industrial Infrastructure Development Corporation (KINFRA). The Registered Office of the Company is situated at Irapuram, Valayanchirangara P.O., Ernakulam District. The Company has acquired 107 acres of land at Irapuram in Mazhuvannur Panchayat, Ernakulam District and has set up an Industrial Infrastructure park for rubber and rubber wood based industries. The work on the above Project is completed and the Company has leased out 71 acres out of the total allocable land of 76.95 acres.

Share Capital

Authorized and paid up Share Capital of the Company as on 31-3-2011 was Rs. 20 crore each, held by Rubber Board and KINFRA in the ratio of 50: 50. These funds were raised as part of the promoters' contribution for implementing the Project.

Records maintained by Rubber Companies:

- Purchase orders \ procurement of raw materials
- Central Excise \ service tax files
- Export data \ files.
- Acquisition of land \ land tax records.
- Sales orders including export sales
- Sales tax records
- Records relating to Sundry Debtors
- Production records
- Records relating to inventories.
- Raw materials consumption records
- Power consumption records.
- Chemical purchases records.
- Legal and arbitration cases.
- Correspondence files relating to dealers
- Internal Audit Report.

Points to be seen in audit:

- Check capacity utilization with reference to actual production \ installed capacity
- Check if all tender procedures are complied with while purchasing the raw materials
- Check if all sales are recorded including export sales
- Check if all export sales are committed and covered by ECGC promoted policies to ensure that sales realization is received without any problems
- Review sales tax, central excise and service tax files including assessments
- Check that all loans taken are serviced in time
- Check that all cash credit facilities are availed are put to the best advantage of the company
- Check the necessity for payment of any penal interest in cash credit schemes

- Check if all incentives eligible for the industry were availed
- Check income generated from consultancy services, land leasing and energy business
- Check interest received from investments.
- Check claims files with ECGC

Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts on selection-	Annual
Transaction on selection-	Annual
Meenachil Rubberwood Limited, Kottayam-	Annual
Pamba Rbbers Limited-	Annual
Rubber Park India Private Limited-	Annual
Ponmudi Rubbers Limited-	Annual
Rubberwood India (P) Limited, Kottayam-	Annual

CHAPTER 36

KITCO LIMITED

36.1 Introduction

The KITCO Limited, Kochi, was established in 1972, as a joint venture of leading financial institutions (ICICI, IDBI and IFCI), Nationalised Banks and Government of Kerala with the objectives of meeting the technical consultancy needs of the small, medium and large scale industrials sectors in the fields of Engineering, Management & Project consultancy. The Registered Office of the Company is at Kochi and has 3 Branches at Thiruvananthapuram, Calicut and Madurai. 49% shares of the company are held by Small Industries Development Bank of India. Other shareholders are Govt. of Kerala, Kerala State Industrial Development Corporation, Kerala Financial Corporation, 7 Govt. sector banks, Industrial Finance Corporation of India and ICICI.

36.2 Objectives

The Company renders consultancy services mainly in the field of Detailed Engineering. The other major areas of operations are

- Preparation of Detailed Project Reports
- Energy Audit
- Entrepreneurship Development Programme
- Asset Value Reports
- Water Supply Projects \ Common Effluent Plants

36.3 Company offers consultancy services in the following fields:

Infrastructure	Roads and Bridges, Industrial Parks, Power and Utilities, Water Transport
Tourism	Destination Development, Hotels and Resorts, Heritage Conservation, Golf Course
Aviation	Airports, →Hangers and MRO, →Mobility Hubs-
Urban Planning	Master Plan and Development Plans, →Institutional and Commercial Buildings
Process Engg.	Process Industry, Industrial Infrastructure

Human Resources Development	Entrepreneurship/Skill Development Training,, Management Development Programmes,→Induction Training,→Soft Skill Training,→Curriculum Designing,→Certification of Vocational Courses,→Skill Assessment for NCVT (MES) Certification, Manpower Recruitment Services - Domestic & Overseas,→IEC Consultancy Services
Financial Services	Loan/Credit Syndication,→Project/Credit Appraisal,→Project Report/Feasibility Studies,→Revival Studies - Turnaround Strategies,→Business Process Re-engineering,→Business Valuation,→Product/Service Pricing,→Capital Structuring / Restructuring,→Debt Restructuring,→Advisory Services,→Lender's Engineer Services,→Single Window Services- Start-up assistance / Project Counselling,→Market Potential Studies,→Customer/Dealer Satisfaction Surveys,→Product Positioning/Brand Building,→Socio Economic Studies
Technical Services	Operation & Maintenance,→Energy Audit,→Plant Betterment Service
Seaports	Seaports,→Logistic Centres,→Marina
Environmental Engineering	Design and Implementation of Effluent Treatment Plants, Sewage Treatment Plants and Solid Waste Treatment Systems, Preparation of Project Reports for Solid Waste, Effluent & Sewage Treatment Systems and Water Supply Schemes, Environmental Impact Assessment Studies,→Design and Laying of Sewerage Network Systems,→Design and Implementation of Water Supply Schemes with Intake Well Systems, Raw Water Pumping System, Water Treatment Plant, Water Distribution System etc.→Operation & Maintenance of Effluent and Sewage Treatment Systems, →Operation & Maintenance of Water Supply Schemes

→ 36.3 Capital Structure

The Authorised and Paid up Capitals of the Company are Rs.50.00 lakh and Rs.19.69 lakh respectively as on 31.3.2011.

36.4 Organisation Structure

The Managing Director is the Chief Executive Officer of the Company. He is assisted by eight Senior Executives.

36.5 (a) Documents to be seen

- Board Minutes & Agenda Notes
- Consultancy \ Contract agreement files
- Bank statements \ Vouchers
- Annual accounts, Directors' reports, etc.
- Sundry Debtors \ Creditors Ledger
- Correspondence with IDBI, ICICI and IFCI
- Fixed Assets Register

- Investments \ Short Term Deposit files
- Valuation Reports
- Consultancy fee structure and collections

(b) Audit Checks

- Vouchers of Cash Book \ Bank Book and Bank Reconciliation Statement
- Receipt Vouchers
- Fees receivable from clients
- Review of Sale of Publications, project appraisal reports
- Review of income from Seminars \ Workshops \ Training Programs
- Scrutiny of Service Tax payments \ Sales Tax payments \ Income Tax Assessment \ TDS files
- Inter Branch reconciliation

36.6 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts - on selection-	Annual
Transaction-	Annual

CHAPTER 37

INDUSTRIAL AND TECHNICAL CONSULTANCY ORGANISATION OF TAMIL NADU LIMITED (ITCOT)

37.1 Introduction

The ITCOT was incorporated in 1979 as a joint venture of leading financial institutions (ICICI, IDBI and IFCI), state development corporations (SIPCOT, TIIC AND SIDCO) and 11 commercial banks to provide consultancy services to industry and service sectors. The Registered Office and Corporate Office of the company are situated at Chennai.

37.2 Objectives

The Company was set up with the objective of meeting the technical consultancy needs of small, medium and large scale entrepreneurs, commercial banks and financial institutions for appraisal studies and post-sanction monitoring of industrial projects. The Company offers Core Consultancy Services, Energy Consultancy Services, IT Consultancy, Asset Recovery Services and Training Programs. Table given below provides the details:

Business and Project Finance Advisory	Feasibility Reports, Project Appraisals, Detailed Project Reports Modernization Study, Business Plan for Venture / Angel Finance Equity / Bank Loan Syndication / Financial Closure, Transaction Advisory for PPP Projects
Enterprise Promotion and Investment Research	
Business Planning	Market Research / Consumer Research, Location / Site Selection, Project Opportunity,-Entry Strategies,-Evaluation Studies,-Escort Services,-Tender / Bid Process Management
Sunrise Sector / Industry Research Reports (Reports on emerging business prospects / Project ideas with model feasibility profiles)	Sunrise Sector Reports on emerging area, -Project Profiles, Sectoral Reports
MSME Cluster Programmes	Cluster Development Initiative, -Diagnostic Stud, Detailed Project Report, Technology / Market Linkage, Cluster Development Implementation, Rural Industries Programme (SIDBI), Rajiv Gandhi Udyami Mitra Yojana, PMEGP
Training & Capacity Building	Technology oriented Entrepreneurship Training, Faculty Development Programmes, Business Meets / Seminars / Workshop, Skill Development / Technical Training, Skill Assessment (MES / SDI)Management Capacity Building, Soft Skill Training, Conference / Expositions, Placements

Project Technical and Management Services	
General	Lenders Engineer, Tender Drafting, Project Management / Monitoring
Energy	Wind Farm / Solar Power, Mini-Hydel Power Project, Bio fuel / Ethanol / Co - generation / Waste to Energy, Energy Audits
Environment	Environmental Impact Analysis (EIA), Carbon Credit / CDM, Sewage and Effluent Treatment, -CETP
Infrastructure	Water Project, Industrial Estate / IT Park / SEZ, Terminal Market / AEZ, Satellite Township, PPP Projects / Financing Models, ASIDE / IID / JNNURM Project
Valuation Restructuring & Disinvestment Services	
Merger & Acquisition	M & A Scheme / Proposals, M & A / De-merger Advisory, Partner Sourcing - Projects / Shares
Sick Unit	Rehabilitation, BIFR - OA / Viability Studies
Valuation	Valuation of Fixed Asset, Valuation of " Going – Concern, Alternative use / Best Case Valuation, Forced / Distressed Sale Valuation, Business Valuation, Brand Valuation, Valuation of Shares
Asset Resolution	Asset Resolution Outsourcing, acquisition / Resolution Due diligence, DRT / SARFAESI / OTS Resolutions, Custodianship Market Making / Asset Sale, Receivership / Constituted Attorney / Facilitator / Advisor Roles
Core Consultancy Services	Pre-Investment Studies, Escort Services, Project Appraisals, Asset Valuation, Stock Audit, Sick Unit Rehabilitation Studies, Restructuring, Skill Up gradation Programs, Industry Specific Studies, Support Studies, Special Studies
Energy Consultancy Services	Renewable Energy, Environment, Energy Audit, Training \ Seminar \ Meets
IT Consultancy Services	Identifying Export markets, Business Intelligence, E-commerce

37.3 Capital Structure

The Authorised and paid up Capital of the Company is Rs.20.00 as on 31.3.2011.

37.4 Organisation Structure

The Managing Director is the Chief Executive Officer of the Company. He is assisted by two Senior Principal Vice Presidents and fourteen Consultants.

(a) Documents to be seen

- Board Minutes & Agenda Notes
- Consultancy \ Contract agreement files
- Bank statements \ Vouchers
- Sundry Debtors \ Creditors Ledger
- Correspondence with IDBI, ICICI and IFCI

- Fixed Assets Register
- Investments \ Short Term Deposit files
- Valuation Reports

(b) Audit Checks

- Vouchers of Cash Book \ Bank Book
- Bank Reconciliation Statement
- Receipt Vouchers
- Fees charged and receivable from clients
- Housing Loan Interest Subsidy Scheme to the Officers and Staff
- Review of demand for and Sale of Publications
- Review of income from Seminars \ Workshops \ Training Programs, consultancy services including on IT compared to forecasts.
- Scrutiny of Service Tax payments \ Sales Tax payments \ Income Tax Assessment \ TDS files
- Review of Board Minutes and Agenda Notes
- Review of Consultancy \ Contract agreement files
- Sundry Debtors \ Creditors Ledger to be analysed
- Correspondence with IDBI, ICICI and IFCI to be reviewed

37.5 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts - on selection-	Annual
Transaction-	Annual

CHAPTER 38

INDBANK MERCHANT BANKING SERVICES LIMITED

38.1 Introduction

Indbank Merchant Banking Services Ltd. was incorporated on 11 August 1989 under the Companies Act, 1956, as a wholly owned subsidiary of Indian Bank, to carry on Merchant Banking and allied activities. These include fee based activities like Issue Management, Project Appraisal, Advisory Services, etc. and fund based activities like Investment in shares \ securities and debentures, Asset Finance (Leasing and Hire Purchase), Inter Corporate Deposits, etc.

The Company's Registered Office and Corporate Office are situated at Chennai. The branches are located at Mumbai, Chennai, Bangalore, New Delhi and Coimbatore.

In 1997-98, consequent to the SEBI guideline prohibiting Merchant Bankers from carrying on Non Banking Finance Company (NBFC) related fund based activities, the company has stopped all Fund based activities. The existing contracts in fund based activities are being allowed to run down their contracted period. The Company had obtained de-registration as NBFC from RBI, consequently, transferred the amounts relating to fixed deposits and unclaimed fixed deposits to an Escrow Account with a Nationalised Bank for repayment as and when claimed. The company is governed by SEBI regulations now.

The Boards of Company and its holding company viz. Indian Bank have decided to merge their stock broking activities \ branches to reduce costs by opening the same in Indian Bank premises to save costs on rent and other establishment expenses and also to increase customer base..

38.2 Capital Structure

The Authorised Capital of the Company is Rs.100.00 crore and the Paid up Capital is Rs.44.38 crore as on 31.03.2011. Of this, 64.79% shares are held by Indian Bank. The shares are listed in Stock Exchange of Mumbai.

38.3 Organisation Structure

The President is the Chief Executive Officer of the Company. He is assisted by Vice President (Finance)-cum-Company Secretary. President has been delegated with adequate powers for managing the day to day affairs of the company.

38.4 Business Operations

Fee Based Activities

- Merchant Banking and Advisory services
- Issue Management and under-writing
- Investment in various securities
- Acceptance of Interoperate Deposits
- Stock Broking and DP operations
- OTCEI Operations \ BODs
- Project Counseling and Loans syndication and other services
- Offshore Management

38.5 Risk Management and Internal Control Systems

(a) Risk Management

The major risks managed by the company are Credit risk, liquidity risk, interest rate risk and operational risk. In view of the discontinuance of fund based activities, the credit risks on appraisal and disbursement do not arise. The company has an Asset Liability Committee which reviews and monitors the funds requirements. The Committee regularly reviews and ensures that the interest rate risks and liquidity risks are minimized.

(b) Internal inspection \ Audit

Internal inspection of all branches was conducted annually by Vigilance Officer of the Company.

Internal Audit

All the branches of the company are subjected to internal audit. The Internal Audit is being conducted by external Chartered Accountants and reports are submitted on quarterly basis to the President.

Documents to be seen during Transaction Audit

- Board Meeting Minutes \ Agenda Papers

- Audit Committee Meeting Minutes
- Internal Audit Reports
- Inter Corporate Deposits files - recovery position
- Hire Purchase \ Lease accounts – recovery position
- Procurement of computers, maintenance contracts, etc.,
- Stock Broking \ Depository Participant Clients' files \ Issue Management files
- Court cases initiated \ settled \ status of pending
- Pursuing of cases and recoveries effected
- RBI and SEBI inspection reports
- Monthly and Quarterly Returns submitted to Board
- Review opening of new branches and their performance including profitability

Audit Checks

1. General

- Deviations of the stipulated guidelines, non-compliance of statutory requirements, deficiencies \ misconduct \ negligence resulting in loss to the company.
- Review of Service Tax, Sales Tax, Income Tax and other statutory obligations.
- Review of Court Cases.
- Review of Reports relating to inspection by RBI and SEBI.
- Verification of Cash Department Transactions.
- Examination of administrative and establishment activities.

2. Fund based and Merchant Banking Activities

- Review on sanction and recovery position in respect of Leasing Activities, Hire Purchase and Inter Corporate Deposits. Check whether the prescribed procedures \ guidelines have been followed in respect of these activities.
- Position of Insurance cover for the assets given on lease \ hire purchase.
- Verification of Bought out deal accounts.
- Review of Recovery \ monitoring of Non Performing Assets – effectiveness of recovery mechanism including legal action.
- Review of Inspection reports on Leased Assets and Stock on Hire conducted by the company once a year.

- Validity of documents in respect of Lease, Hire Purchase, Inter Corporate Deposits, etc.
- Review of investment operations - computation of Net Asset Value, Corporate activities, purchases and sales accounting, etc.
- Review of recovery in respect of past cases of ICD accounts.
- Review of recovery in respect of past cases of leasing and hire purchase accounts.

3. Stock Broking Activities

- Recovery from stock broking clients.
- Review the system of extension of margin facility to customers
- Review the margin levels allowed with reference to the actual outstanding
- Review of Clients' accounts with particular emphasis on dues outstanding for a long period, availability of security, etc.
- Recovery of fees from Depository Participant clients.
- Review system of opening and operating Demat accounts and management.

38.6 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction-	Annual

CHAPTER 39

IND BANK HOUSING LIMITED

39.1 Introduction:

Ind Bank Housing Limited (IBHL) was incorporated on 28th January 1991 under the Companies Act, 1956, as a wholly owned subsidiary of Indian Bank, with the object of providing long term finance for the purpose of erection, construction, purchase or upgradation of house, building, flats etc. for residential purpose under general category \ project loans. The company performed well during the initial years. Due to various factors including a high level of NPAs, IBHL started showing financial strains. Due to a negative net worth situation the company was forbidden from accepting public deposits and in the absence of working funds, the main activity of extending housing loans was discontinued from the year 2000. Now the company is engaged in recovery of dues from various categories of borrowers' \ NPAs and applying the same for reduction of public deposits.

The Registered Office and Corporate Office of the company are situated at Chennai. The Company has 3 branches, one each in Chennai, Madurai and Hyderabad.

39.2 Capital Structure

The Authorised Capital of the Company is Rs.50.00 crore and the Paid up Capital is Rs.10.00 crore as on 31.03.2011. Of this, 51 % shares are held by Indian Bank and 25 % held by HUDCO. The shares are listed in Stock Exchanges of Chennai and Mumbai. The Company's funds are also deployed on investments in various financial institutions and other companies.

The Company is eligible for refinance from National Housing Bank and had received Rs.644.48 lakh on account of refinance upto April 1999.

39.3 Organisation Structure

The Managing Director is the Chief Executive Officer of the Company. He is assisted by Directors and Company Secretary.

39.4 Business Operations

The Company has stopped fresh lending from 2000-2001, due to liquidity problem and to comply with the National Housing Bank's regulations. The company was notified as a `financial institution` under the Securitization Act on 16.3.2006 which is helping the company to speed up the recovery process.

39.5 Public Deposits

The Company had stopped accepting public deposits from 1998 and renewals with effect from 01.11.2001 for want of borrowing power. The outstanding public deposits as on 31.03.2011 are Rs.7.64 lakhs.

39.6 Risk Management and Internal Control Systems

Risk Management

The major risks managed by the company are Credit risk, liquidity risk, interest rate risk and operational risk. As there is no fresh lending, the credit risks on appraisal and disbursement do not arise. The company has put in place a recovery mechanism for realisation of existing housing loans and monitors recovery of loans and funds requirement for administration so that the liquidity risk is minimized.

39.7 Internal inspection \ Audit

The Company has operating manuals and delegation of powers to ensure that operational controls are maintained. The Company has an internal audit system to ensure feedback on adherence to the defined policies and procedures.

All the branches of the company are subjected to internal audit conducted annually by the officials of Indian Bank. The audit reports are submitted to the Managing Director.

Documents to be seen during the Transaction Audit

- Board Meeting Minutes \ Agenda Papers
- Audit Committee Meeting Minutes
- Internal Audit Reports
- Inter Corporate Deposits files - Recovery position
- Housing Loan accounts – Individuals and corporate bodies – Recovery position
- Procurement of computers, maintenance contracts, etc.
- Court cases initiated \ settled \ status of pending

- Monthly and Quarterly Returns submitted to Board
- Term Loan agreement with Indian Bank
- Refinance from National Housing Bank - Repayment of loans

Audit Checks

1. Housing Loans

- Review on recovery position in respect of Housing Loan Accounts – Individuals and Corporate Bodies.
- Review of Recovery \ monitoring of Non Performing Assets – effectiveness of recovery mechanism including legal action.
- Validity of documents in respect of Lease, Hire Purchase, Inter Corporate Deposits, etc.

2. Term Loans

- Repayment schedule of Term Loans and interest to Indian Bank and National Housing Bank
- Verification of Maintenance of Statutory Liquid Ratio, as per NHB guidelines

3. Public Deposits

The Company had public deposits to the tune of Rs.7.64 lakh as on 31.03.2011. In this regard review of steps taken by the Company for foreclosure of deposits needs to be watched.

4. Project Loans

The project loans as on 31.03.2003 amounted to Rs.17.19 crore. Review of recovery in project loans may be watched. Action taken by the Company to enforce security held against loans to be watched.

5. Inter-corporate Deposits

The Company had placed in the past ICD with various companies. Recovery of ICDs is to be watched. Position of Court cases filed to be followed up. Acceptance of compromise proposals are to be examined.

6. Investments

Investments include Government securities and deposits and hence a receipt of interest needs to be checked.

7. General

- Deviations from the stipulated guidelines, non-compliance of statutory requirements, deficiencies \ misconduct \ negligence resulting in loss to the company.
- Review of Income Tax Assessments, Interest Tax orders and other statutory obligations.
- Review of Court Cases
- Verification of Inter Branch reconciliation
- Verification of Cash Transactions
- Examination of administrative and establishment activities

39.8 Audit Committee

- Minutes of the Audit Committee meetings need to be reviewed.
- Action taken on the issues raised by Audit committee needs to be watched.

39.9 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction-	Annual

CHAPTER 40

CHENNAI METRO RAIL LIMITED

40.1 Introduction:

Government of Tamilnadu created a Special Purpose Vehicle for implementing the Chennai Metro Rail Project. This SPV named as Chennai Metro Rail Limited was incorporated on 3.12.2007 under the Companies Act, 1956. It has now been converted as a Joint Venture of Government of India and Government of Tamilnadu with equal equity holdings. Government of India approved the project on 28.01.2009.

40.2 Objectives:

The objective of Chennai Metro Rail Project are-

- To provide fast, convenient, efficient, modern and economical mode of public transport system.
- To properly integrate with other modes of transport;
- To decongest the ever growing road traffic;
- To provide reliable transport system with fixed travel time;
- To provide a reliable, all weather, all season transport system;
- To provide an environment friendly means of transport.

40.3. Organisational Setup: The Board of Directors consists of a Chairman, one Managing Director and 8 Directors (4 Directors each are nominated by Government of India and Government of Tamilnadu).

40.4. Capital Structure: Estimated cost of the project is Rs.14, 000 crore out of which Governments of India and Tamilnadu were to contribute 41% and the balance to be met by a loan from Japan International Corporation Agency (JICA). Loan agreement was signed on 21.11.2008 at Tokyo.

40.5. Consultants: CMRL appointed a 5 member consortium led by Egis Rail SA France, as General Consultant to provide general consultancy services for procurement, construction, testing and commissioning of CMRL Phase I including all civil engineering structures, tracks, signals, telecom facilities, traction arrangement, air-conditioning and ventilation, rolling stock, maintenance of depots \ stations, operation, control centre, station integration

etc.. CMRL also appointed Delhi Metro Rail Corporation (DMRC) as the Prime consultant for Phase I of the Project to assist the company in an advisory role for the execution of the Chennai metro rail project.

40.6. Project Details:

A Detailed Project Report (DPR) relating to the Chennai Metro Rail Project was prepared and submitted by the Delhi Metro Rail Corporation Limited (DMRC) who have successfully designed and implemented the Delhi Metro Rail Project. The DPR envisages the creation of 2 initial corridors under the proposed phase-1 of the Chennai Metro Rail Project as shown below:

Corridor -	Length in Kms
Washermenpet to Airport -	23.10
Chennai Central to St.Thomas Mount -	22.00
 Total	 45.10

Details of the two corridors are given below:

Corridor-1: Washermenpet – Broadway (Prakasam Road) – Chennai Central Station – Rippon Building – along Cooum River – Government Estate – Tarapore Towers – Spencers – Gemini – Anna Salai – Saidapet – Guindy – Chennai Airport.

Corridor-2: Chennai Central – along EVR Periyar Salai – Vepery – Kilpauk Medical College – Aminjikarai – Shenoy Nagar – Annanagar East – Anna Nagar 2nd avenue – Tirumangalam – Koyambedu – CMBT – along Inner Ring Road – Vadapalani – Ashok Nagar – SIDCO – Alandur – St. Thomas Mount.

The portions of Corridor-1 with a length of 14.3 kms from Washermanpet to Saidapet, and Corridor-2 with a length of 9.7 kms from Chennai Central to Anna Nagar 2nd Avenue will be underground and the remainder elevated. The alignment and stations given above are tentative and subject to change during detailed design and execution.

Out of the total estimated value of Rs. 14,500 crore, civil contracts to the tune of around Rs. 5,000 crore only have been finalized; contracts awarded and are under different stages of execution. Orders for rails, coaches, tele communications, signaling etc. etc. are yet to be finalized and work \ purchase orders are to be issued. Hence audit checks to be conducted for all such items would be similar to purchase of any other machinery \ stores \ spares procured in any other industry.

40.7 Other General Issues: Company is constrained to and has been incurring large amounts on the following items, in the process of executing the project:

- Acquisition of land from private, public, State Government and its departments \ PSUs
- Land acquired at one place is compensated by providing land in some other place
- Some buildings are demolished to make way for Metro Rail project and are re-constructed elsewhere but compensation is paid by CMRL
- Some sewerage \ drains \ Street lighting are relocated to make way for the project implementation and the cost for relocation is borne by CMRL
- Land acquired from railways and over bridges constructed over railways land by payment for `right of way` \ lease rent etc.
- Deposit works executed by other departments' \ companies (eg. AAI \ NHAI) on behalf of CMRL but some advance deposits paid by CMRL
- Compensation payable \ paid to shops \ shop owners for acquiring their land in some places
- Compensation paid towards rents and other charges for temporary resiting of some locations

40.8. AUDIT CHECKS:

a. Audit of Contracts:

Audit of contracts is to be done in two stages viz. pre-award stage and post-award stage. Audit checks for various types of contracts are given below:

- cost estimates for projects may be examined with a view to see that abnormal variations are not due to defective planning and that the reasons assigned by the management are justifiable.

- Check if the cost estimates prepared by the consultants are based on the schedule of rates notified by the local government
- Whether the revised cost estimates have been approved by the competent authority.
- Review of bid evaluation statements to ascertain that bids have been tabulated in the specified manner summing up the total cost of deviations.
- Check whether adequate earnest money and security deposits have been deposited by the contractors in accordance with the terms and conditions of the contracts and that they have been properly accounted
- Check if bank guarantees for the requisite amounts were received and maintained including the system of their renewal within validity period.
- Whether the order has been placed within the original \ extended validity period at the quoted rates? If not, the extra expenditure incurred as a result of delay in finalization of tender
- The justification for re-tendering, if any and extra expenditure involved as a result thereof.
- Whether final payment of the balance was released only after carrying out performance guarantee tests of the plant & equipment?
- Increase in cost of the project may be critically analysed with a view to pin-point instances of avoidable extra expenditure
- Whether there is any unusual \ abnormal delay in installation \ commissioning of machinery \ equipments after their receipt? If so, examine this critically.
- Whether recoveries on account of facilities provided to the contractor are in conformity with the terms of agreement?
- Whether payment is authorised by the competent authority?
- Check for the number of deviations contemplated before the work is completed and analyze whether such deviations could have been taken care of in the beginning itself
- Whether labour \ material escalation claims have been admitted with reference to the terms of the contracts and with the specific consent of the general consultants? If not, the extra amount paid as a result thereof.
- Check if the system adopted by the company for scrutiny of the bills and maintenance of records is satisfactory

- Check the adequacy of supervision exercised by the consultant in the execution of the project works

b. Consultancy Agreements

- Whether any Consultancy wing has been formed in the Company to provide Consultancy to outside agency?
- Check the rustication for appointing consultants and reasonableness of the fee agreed to be paid
- Whether system of assessing requirement of the Client are there and whether the estimates prepared for each assignment compare favourably with the rates accepted by the clients; viz cost benefit analysis.
- Whether the bills are raised on the clients expeditiously in accordance with the terms & conditions of the contract and payments are received promptly?
- Check whether the coverage of the project or the report by the consultants is as per the original tender documents
- Check the correctness of the fee claimed by the consultant and whether amount is as per the terms of the contract for consultancy.

c. IT Audit

- Whether system has been properly protected by the system administrator password and user password separately?
- Whether authorizations to each user have been properly defined so that each user cannot interfere in the data entered by the other user?
- Whether proper backup is being taken at reasonable intervals of time?
- Security checks may be critically examined to find out if there is any lapse in the system.
- Whether the transactions recorded in one module of SAP system are automatically entering into the other affected modules.
- Whether postings made in the sub-ledgers generates a corresponding posting to the assigned General Ledger (G \ L) Account.
- Whether the access of each user has been clearly defined? In-built audit trails may be critically examined to find out any lapse in the system.
- Check the adequacy and compatibility of the software for the organisation

d. General Checks

- Check if compensation paid for lands \ shops etc. is as per the government notified or commercial rates but not to the disadvantage of the company and that the same was as per the original DPRn contemplated
- Ensure that existing of drains, demolition of buildings etc. are necessitated as per the original project plan only or else highlight additional cost necessitated due to the deficiencies in the original project plan
- Whether maintenance schedules has been laid down for entire system and the same is being implemented regularly. Whether the parts replaced are properly accounted for until they are disposed of.
- Whether the financial powers of various categories of officers have been clearly laid down, whether such powers are properly delegated and whether they have been exceeded.
- Whether the system of receipt and payment of cash, verification of cash balance and recording of cash transaction is adequate and satisfactory?
- Check the rates adopted for passengers, their basis and whether return on investment is covered as per the original agreement
- Whether periodical stock verification is done and discrepancies, if any, are reconciled.
- Where street lights are replaced, check that credit for disposing the dismantled items is adjusted in the compensation paid by CMRL
- When deposit works are undertaken by others on behalf of CMRL, ensure that no compensation is paid for the delays of other departments in executing the work.

40.9 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction-	Annual

CHAPTER 41

NLC TAMIL NADU POWER LIMITED

41.1 Introduction

Neyveli Lignite Corporation (NLC) and Tamil Nadu Electricity Board (TNEB) together formed a joint venture company viz., NLC Tamilnadu Power Limited (NTPL) on 18 November 2005 to implement a coal based 2 x 500 MW Thermal Power Project at Tuticorin in Tamil Nadu.

41.2 Capital Structure

Ratio of equity between NLC and TNEB was agreed to be 89:11 respectively. Authorised share capital as on date is Rs. 1800 crore. As against this amount, paid up share capital details as on 31.3.2011 are as follows:

Holder	No. of shares	Face value	Rs. in crore
NLC-	44, 50, 00,000	10	445
TNEB-	5, 50, 00,000	10	55
	50, 00, 00,000		500

41.3 Organizational set up

The Articles of Association of the company states that subject to ultimate control by the shareholders, the company shall be managed by a Chief Executive Officer (CEO) who shall not be a member of the Board. The CEO shall be a “Manager” for the purpose of Companies Act 1956 and shall act under the direction, supervision and control of the Board and shall have such powers as may be determined by the Board from time to time. The CEO to be appointed by the Board shall in all cases be a nominee of Neyveli Lignite Corporation Limited.

At present, Chief Executive Officer in the rank of Executive Director is assisted by a General Manager on technical side and a Deputy General Manager on finance side. The above officers, assisted by Executives and non-executives down the line have been overseeing the execution of power station project.

The Chairman and Managing Director of NLC is the Chairman of NTPL also. The Board comprises NLC's Directors for Planning and Project, Power, Finance besides independent Directors' appointed by Govt. of India.

41.4. Main objects of the company as per Memorandum of Association

- To plan, promote and organize an integrated and efficient generation of electric power
- To carry on the business of generation development and accumulation of electricity, and transmission, distribution, supply and sale of such power in bulk or otherwise for distribution by other parties.
- To carry on the business of purchasing, selling, importing, exporting, producing, trading, manufacturing or otherwise dealing in all of electric power and for that purpose install, operate and manage all necessary plants, establishments and works.
- To acquire, construct, build, set up and operate washeries for washing of coal
- To purchase, lease or otherwise construct, manage tramways, railways.
- To carry out the business of mechanical, electrical and electronic engineers in apparatus required in connection with generation distribution etc.
- To search for, get, sell, dispose and deal in by products \ waste products during the course of operation
- To act as Consulting Engineers, contractors, Advisors in connection with generation, transmission and distribution of power.
- To undertake for and on behalf of others, the construction, erection, operation, maintenance and management of electric power stations for generation, transmissions and distributions.
- To take up the business of manufacturers of those dealing in apparatus \ things required for use in connection with business of the company.

41.5 Project profile

For the power project under erection, coal required will be received from M \ s. Mahanadhi Coal Fields Ltd. The land measuring 133 hectares over which project works are being carried on was required from Tuticorin Port Trust (TPT) on lease for 30 years. For this lease a sum of Rs. 48.47 crore was paid to TPT as up-front fees. Estimated cost of the

project is Rs. 4909.54 crore. It was also projected that a sum of Rs. 1472.86 crore would be funded by equity and the balance amount will be met out of borrowings. It has been projected that Unit-I and Unit-II of the Thermal Power Station will be commissioned in March 2012 and August 2012 respectively. The power to be generated from this power station will be supplied to Southern States of Karnataka, Kerala and Tamilnadu and also to Union Territory of Pondicherry as per agreements signed already with respective Electricity Boards.

41.6 General records available in hard copy \ soft copy

- General records
- Cash book
- Imprest cash book
- Bank Statement
- Inter Unit cash \ Bank Transfer records
- Bank Reconciliation Statements
- Journal vouchers with supporting documents
- Records on advance payments and adjustments
- Records on refund of advances
- Records on Sundry debtors
- Records on provision for doubtful debts
- Records on write off
- Records on sundry creditors
- Records on Bill Receivable \ collection
- Records on disposal of scrap
- Records on miscellaneous expenses

(a) Specific records

- Records on loans received from REC \ BOB
- Records on payment of fees to Tuticorin Port Trust
- Records on Service Tax
- Detailed Project Report
- Records on project execution on various packages
- Board Agenda \ Minutes

- Progress Reports on project execution
- Records on deposit contribution works with IOC, TWAD, TANWARE, TPT
- Contracts with BHEL for Main Plant package and with other contractors for various packages
- Billing Schedule for regulating payments for supply and erection
- Records on payment of pay and allowances, incentives etc.
- Correspondence with Port Trust for payment of port charges
- Records on receipt and payments with holding company viz., NLC
- Correspondence with TNEB on various subjects
- Records on recovery of liquidated damages
- Records on TDS recovered and paid in respect of contracts
- Records on receipts, issues of equipments, spares, stores, tools etc.
- Records on collection and refund of EMD, forfeiture of agreement.
- Bank Guarantees
- Letter of credit for import of equipments
- Records on customs duty
- Records on STD with Banks
- Tender and finalisation of contracts
- Records on purchase of fixed assets, stores, repairs and maintenance
- Records on environment with pollution control board
- Correspondence with GOI regarding project sanction and execution
- Court cases
- Annual Accounts, Statutory Audit reports
- Accounts on preliminary expenses
- CERC Regulations, compliances and deviations to be reviewed and commented
- Records on loan received from Foreign Financial Institutions and servicing
- Payments for High Tension power supply for construction activity
- Power supply Bills after commissioning of the power station
- Records on pay fixations and remuneration to employees
- Quarterly Accounts and Annual Accounts
- Statutory Auditors' Report

- Internal Auditors' Report
- Records on insurance, underwriting and claims review
- Energy Audit Reports (after commissioning)
- Records on auxiliary consumption

41.7 Audit Checks

During Project implementation

- Whether payments for various stages of implementation \ completion of works were as per contract terms
- Whether interest if receivable on mobilization advances paid to contractor was received correctly and promptly, effectiveness of the system
- Whether taxes, duties, freight and insurance were paid against documentary evidence
- Fortnightly \ monthly progress reports to be reviewed to know the hindrances faced in execution and also action taken to resolve the issues.
- PERT chart and actual implementation to be compared to know about constraints faced and action taken \ not taken to be reviewed to know management lapses
- How far interface problems \ space constraints in execution of project works faced among contractors were solved effectively to avoid time over-run may be seen.
- In respect of delays in supplies and erection, how liquidated damages were calculated and collected may be seen.
- Deviations \ modifications \ Deletions \ Additions in supply \ erection may be reviewed with reference to tender conditions so that unintended benefits may not be passed to contracts.
- Whether there exists unusual or apparently objectionable practices followed may be seen and suitably commented upon
- Cost overrun due to contractors` delay may be scrutinised thoroughly.
- On completion of works, performance guarantee parameters of plant and machinery of the contractor \ supplier may be studied with actuals. In case of underperformance, remedial measures taken may be reviewed.
- Idle investment due to hasty completion of one package or packages without regard to delay in execution of main plant package must be pointed out.

- Role of consultants in respect of approval for drawings and early completion of the project may be reviewed.
- Economy in availing Rupee Term Loans, Bonds issue, External Commercial Borrowings needs to be reviewed thoroughly.
- Problems faced in release of payments at various stages of execution may be reviewed to ensure that commissioning of plant is not delayed due to reasons attributable to contractors and stoppage of payments may also be studied.

After commencement of commercial operation

- Design parameters guaranteed by the Equipment supplier with actual achievement may be compared. Any lapses or avoidable reasons may be analysed and pointed out.
- To see that recovery of all the loss incurred in power generations, actual parameters achieved must be compared with the permissible parameters as per CERC regulations
- Energy Audit Report and its implementations may be reviewed.
- Adequacy of generation of Invoices for power supply – their accuracy and realizations may be reviewed.
- System of pursuing Insurance claims and settlement may be seen.
- Revenue maximization or loss under Availability Based Tariff regime may be seen.
- For forced outages reasons may be analysed and commented suitably.
- System lapses and consequential Loss of generation may be reviewed.
- Non-adherence to maintenance schedule for the Thermal Power status and its impact may be commented.
- Adherence to PCB norms may be reviewed.

41.8 Functional Areas and Periodicity

Functional Areas-	Periodicity
Accounts -	Annual
Transaction-	Annual

CHAPTER 42

FACT– RCF Building Products Ltd.

42.1 INTRODUCTION: FACT-RCF Building Products Limited was incorporated on 2nd May 2008 as a joint venture company by Fertilizers and Chemicals Travancore Limited (FACT) and Rashtriya Chemicals and Fertilizers Limited (RCF) . The project works, though commenced in December 2008 with scheduled date of completion in November 2009 is completed (September, 2011).

42.2 Capital Structure: The authorised and subscribed and paid up capitals are Rs. 40.00 crore and Rs. 30.00 crore respectively with FACT and RCF holding on 50:50 basis.

42.3 Main Objectives: As per the Memorandum of Association of the Company, the objectives of the Company are:

To carry on in India or in any parts of the world all kinds of business relating to building material, building products like Load bearing Wall panels, wall plastics, wall putty and other building material products, gypsum, concrete, cement, steel, chemical compounds and products of any nature including by products, derivatives and mixtures thereof and in particular to carry on the business of manufacturing , trading, securing, packing, distributing, transporting, converting, maintaining and rendering of assistance, services of all and every kind or any description, buying, selling, exchanging, altering, improving and dealing in gypsum and other building material including artificial chemicals and their by products, organic and inorganic chemical compounds, cement, coke and their by products.

42.4 Activities: As per the Detailed Feasibility Report prepared by FACT Engineering and Design Organisation (FEDO), total investment for the manufacture of gypsum based products was Rs.90.72 Crore with cenvat credit and other credits. The proposed project had the following units:

1. Calciner Plant of 15 MT per hour capacity.
2. Rapid Wall Plant with a capacity to produce 14 lakh square meters of panels with Drying unit and cutting unit.
3. Mixing Unit to produce around 40,000 MT per annum of wall putty and 24,000 MT per annum of wall plaster.
4. Utilities like LPG Storage handling facilities, instrument air compressor, MCC, Fire Water System etc.,

The Company signed an agreement with RBS, Australia, the technology supplier for the supply of proprietary equipment and engineering services for Rs.40.65 Crore (Australian Dollar 10.897 million). The new FRBL unit has a capacity to produce around 39,000 panels, each of 36 sq. m. size a year. Interior wall putty and interior wall plaster will be other products from the new joint venture company. The plant will require over one lakh tonnes of gypsum a year:

42.5 Records maintained in various sections:

- Articles of Association and Memorandum of Association
- Notices, Agenda and Minutes of Board Meetings and Share Holders meetings
- Detailed project Reports, Agreements
- Tender documents, work Orders, Purchase Orders files, Registers etc.,
- Ledgers, TDS records, Service Tax records, Central Excise Records etc.,
- Bank Accounts, vouchers, Party's accounts, Work contract files, etc.,
- Vat files, Imprest files, bank accounts, cash books etc.,

42.6 Audit checks:

- Check the process adopted for appointment of consultants
- Check whether the project was completed and commissioned as per the DPR
- Check for delays if any in its implementation and levy of damages etc.
- Check whether the import \ indigenous purchase of machinery \ spares etc were carried as per the general principles adopted for purchases including delegation of authority
- Check if any deficiency had given rise to insurance \ any other claims
- Check if all civil contracts were awarded after complying the company`s own manual or other provisions and that scope of objectionable practices was ruled out
- Check if performance of machineries installed are as per the standards set for them by the manufacturers including the quality of output
- Check if the usual safeguards were built in, in all the purchases or contracts awarded by the company
- Check if all the material produced is sold as per the company`s expectations

- Check if the company had given sufficient publicity to popularise its products
- Check whether the normal checks for purchase of raw materials are being complied with
- Check if all statutory levies are being collected and remitted in time to the appropriate authorities.

42.7 Functional Areas and Periodicity

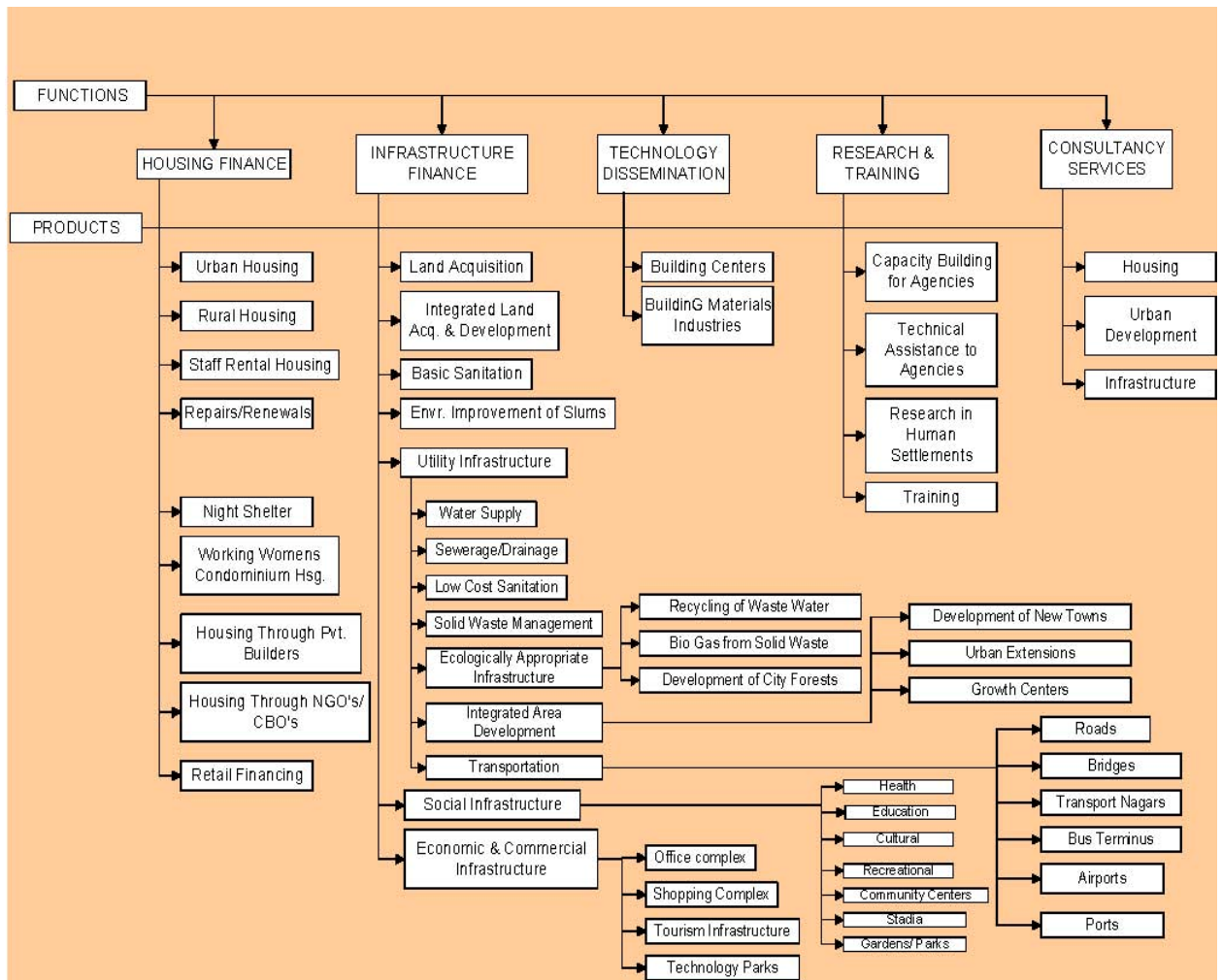
Functional Areas-	Periodicity
Accounts -	Annual
Transaction-	sAnnual

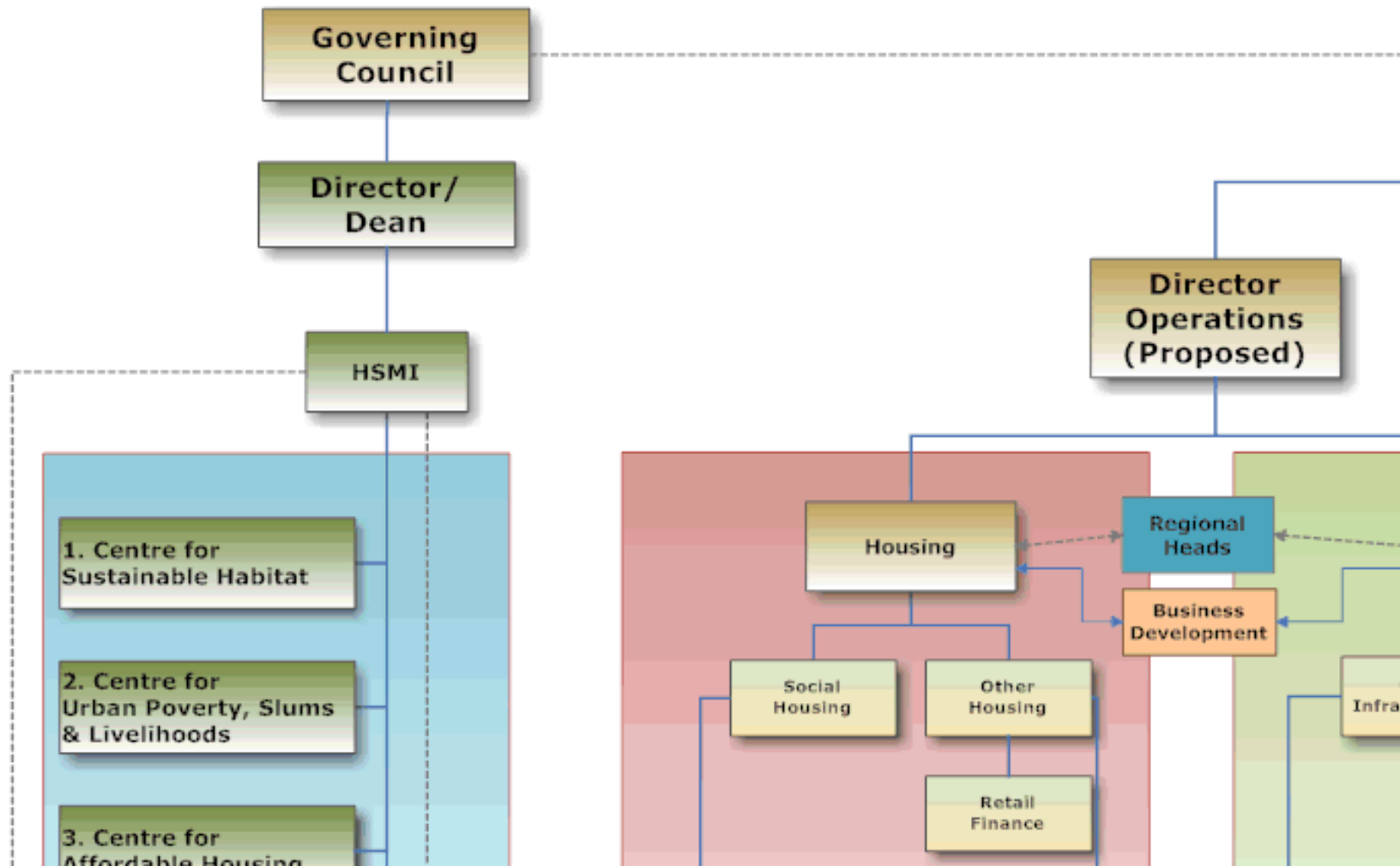
IDBI Assets Management Company Limited

IDBI MF Trustee Company Limited

India Clearing & Depository Services Ltd

HUDCO – FUNCTIONS AND SERVICES





Annexure HNL

PROCESS

Three grades of pulp:-Chemi Mechanical pulp, Chemical pulp and De-inked pulp are blended to manufacture newsprint.

Chemi Mechanical Pulp (CMP)

230 BDMT per day CMP plant (Sunds Defibrator, Sweden) uses hard wood (Eucalyptus, Acacia) chips to produce pulp. Chips are washed, pre-steamed and impregnated with caustic soda. Impregnated chips after recovering spent alkali is mechanically pulped using three Raffinators. Raffinators are driven by synchronous motors of 6.5 MW (BHEL make). Spent chemicals are removed after primary refining using Twin roll press. Pulp after second stage refining is washed and bleached by Hydrogen Peroxide. The TCF bleaching process operates effluent free. Bleached pulp after third stage refining is sent to High Density storage tower for onward use in paper machine.

Chemical Pulping (CP)

Capacity of CP plant is 100 BDMT/day. Reed/ Bamboo chips are pulped using conventional kraft process using stationary vertical Digesters of BHPV make. After counter current washing, pulp is bleached using chlorine followed by Hydrogen Peroxide stage.

De-Inking Plant (DIP)

The 100 TPD De-Inking Plant uses, Old Newspaper (ONP) and Old Magazine Paper (OMG). Waste paper is weighed and pulped in Batch Pulper and stored in Dump Tower. Pulp is cleaned off the contaminants using HD cleaner followed by 2 stage hole screening. A seven cell floatation process removes the ink from pulp. Pulp is further cleaned in 4 stage centri-cleaners followed by 3 stage slot screens. Pulp is thickened in Disc filter and Screw Press to 30 % dryness and subjected to hot dispersion. Pulp is then bleached using Sodium Hydrosulfite and stored in High Density storage tower. A Reject handling system separates the rejects for disposal at about 50% dryness. The sludge handling system thickens the ink sludge to 40% dryness for use in our FBC Boilers.

Into Paper Machine

The CMP, CP and DIP are mixed in a definite ratio and supplied to the headbox through approach flow system wherein chemical additives are added. The paper machine approach flow system consists of four-stage centri-cleaner, Clark and Vicario Deculator system, primary fan pump and a variable speed secondary fan pump and pressure screens.

The paper machine is the modern high speed machine from VOITH, Germany. With the desired velocity, the diluted pulp flows from a high turbulence W-type head box into Duoformer twin-wire forming section. The paper web is formed in Duoformer and it is pressed to remove water with swimming rolls. The paper from the press section passes on to a dryer section, with 36 dryers and one sweat dryer, having thermo-compressor steam and condensate system. The dried paper surface is smoothed through a four roll open calendar stack with two Kusters swimming rolls. The machine is designed for 750 meters per minute

(mpm) speed with a deckle (width) of 6.85 meters to produce 44 to 54 GSM newsprint. The machine has a sectional D.C. drive with thyristor control. The finishing line has a VOITH winder, Jagenberg Salvage winder and Klienewefers roll wrapping machine. Paper core is made here in a spiral core making machine with purchased kraft paper and grey board.

The Utilities

The steam requirement is met by 3 ABV/ABL boilers with fluidised bed burning. There is a chemical recovery boiler of BHEL make. There are two turbo generators with capacity of 15 MW and 7 MW. About 35% of total power requirement is met through State Electricity Board. Also the mill has an effective water and air supply system for plant use and controls.

Effluent Treatment

In keeping with National priorities and increasing social obligations, HNL is ISO 14001 certified and has adopted environmental and pollution control measures. The colour and other pollutants are removed and water free from pollutants is discharged into the river. Air pollution is also controlled by effective Electro Static Precipitators.

