

# Internal Audit Framework in IRCON (Draft)

*“The idea of this write up is to define and establish the mission and overall framework for the Internal Audit Department (IAD) of IRCON in terms of guiding principles, objectives, scope, authority, responsibility, accountability and independence of the internal audit department and code of ethics of IAD”*

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## **Vision of Internal Audit Department**

The Vision of the internal audit department is “To provide independent and objective appraisal of the financial and operational activities of Ircon International. Ltd. with a view to add value, improve effectiveness of risk management and internal control systems, operational efficiency and governance processes”.

## **Guiding principles of Internal Audit Department**

The Internal Audit Department (IAD) should adhere to the following guiding principles towards achieving the stated mission:

Maintain independence and objectivity at all times.

Institute adequate and reliable internal audit systems and continuously improve upon them.

Adhere to professional standards and rely on professional judgment.

Anticipate risks and opportunities for improvement.

Develop and maintain a highly motivated professional staff.

Build a strong partnership with the Audit Committee and the Management to enhance effectiveness.

Serve as an important tool for the management in achieving the overall mission and objectives of Ircon Int. Ltd.

## **Objective of Internal Audit Department**

The prime objective of the IAD is to examine and evaluate whether Ircon International Ltd.’s framework of risk management, internal control and governance processes are adequate and functioning properly.

In addition, the objectives of IAD would include advising and recommending the management for improvements in internal control and Internal financial Controls on Financial Reporting.

Understanding and assessing the risks and evaluate the adequacies of the prevalent internal controls.

Identifying areas for systems improvement and strengthening controls.

Ensuring optimum utilization of the resources of the entity, for example human resources, physical resources etc.

Ensuring compliance with internal and external guidelines and policies of the entity as well as the applicable statutory and regulatory requirements.

Safeguarding the assets of the entity.

Reviewing and ensuring adequacy of information systems security and control.

Reviewing and ensuring adequacy, relevance, reliability and timeliness of management information system.

### **Scope of Internal Audit**

In order to fulfill its vision and objectives, the scope of work of Internal Audit shall include:

Examination and evaluation of adequacy and effectiveness of the internal control and risk management system at various operations and activities of the Ircon Int. Ltd.

Review of the accuracy and reliability of Ircon International. Ltd.'s accounting records and financial reports with a view to ensure robustness of Internal Financial Controls on financial Reporting.

Checking both transactions and functions of specific internal control procedures at various departments/ offices.

Evaluation of adherence to legal and regulatory requirement covering Acts related to Finance, Banking and Taxation laws such, GST, Income Tax Act, etc. and approved policies and procedures.

Examine that resources are acquired economically, used efficiently and safeguarded adequately.

Carrying out special assignment as directed by the senior management/ Audit Committee.

Value addition; improve operational efficiency and internal control systems.

To ensure the compliance of company Risk Management policies by respective projects/ units/ regions/Corporate Office  
Evaluation of Management Information System (MIS) Reports.

## **Detailed scope of Internal Audit is attached as Annexure-A**

### **Authority of IAD**

The Head of IAD/Internal Audit personnel and the Auditors from Internal Audit firms appointed as internal auditors shall be authorized to:

Have unrestricted access (including system access) to all departments, offices, activities, records, information, properties and personnel relevant to the performance of IAD.

Determine scope of work and apply the techniques required to accomplish the internal audit objectives.

### **Responsibilities of IAD**

a) The Head of IAD shall be responsible to:

Prepare an annual audit plan in consultation with the CMD & Audit Committee.

Implement the annual audit plan, including as appropriate any special tasks or assignment assigned / allocated by the Audit Committee.

Maintain requisite professional audit personnel strength with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of the IAD mission and objectives.

Issue / present periodic summarized reports to the Audit Committee.

Ensure that the Internal Audit Department complies with sound internal auditing principles and best practices.

b) The Internal Auditors shall have the responsibility to:

Follow the guidelines and methodology as given in Internal Audit Standards and Guidance Notes issued by the Institute of Chartered Accountants of India.

Exercise due professional care in carrying out the audit assignments.

Maintain independence, integrity and objectivity.

### **Accountability of IAD**

The Head of IAD will administratively report to CMD but he/she shall be accountable to the Audit Committee to:

Provide periodically an assessment on adequacy and effectiveness of the company processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

Report significant issues related to the processes for controlling the activities of the company, including potential areas for improvements and making recommendations thereon.

Periodically provide information on the status and results of the annual audit plan.

Periodically apprise on the sufficiency of IAD resources.

### **Conduct of Internal Audit**

The conduct of Internal Audit is controlled and monitored by the Head of Internal Audit Cell in the Company, who directly reports to the Audit Committee and for administrative purposes reports to CMD.

The work of Internal Audit is carried out by engaging firms of CA/CMA, having head offices located in each Audit Circle (for Indian as well as foreign projects).

Apart from routine Internal Audit, the Internal Audit cell itself may also conduct internal audit or inspections of various projects, depending on the requirement and sensitivity. An Annual Inspection Plan is prepared by the Internal Audit Cell in the beginning of the financial year to facilitate systematic and planned in-house inspections throughout the year.

### **Internal Audit Guidelines**

The policy guideline is in place in respect of the approval/ Sanction of all administrative functions / expenditures.

To check that Budget provision was there for the expenditure incurred and the committed expenditure for service/works/supply has provision in Budget

The expenditure committed has approval of competent authority as per SOP.

Where the expenditure has been incurred or committed exceeds the Budget/ initial approval, the reason for variation is analyzed and approval for the variation has been approved by the competent authority.

## Frequency of Audit

All running Indian/foreign projects with total project value exceeding Rs.500 Cr and percentages of completion is above 15% and below 95%and Corporate Office are to be audited on semi-annual basis.

All other projects (including closed projects) are to be audited on annual basis.

## Reporting Format and calendar for submission of Internal Audit Reports

Internal Audit Reports should be prepared in twelve separate parts, namely:

**Part-I:**Introduction of Project including details of nature of work, important timelines, client, major sub contactors, value, man power, present status and performance

**Part-II:**Audit Planning and Methodology

**Part-III:Confirmation as to Audit** Documentation- The IAD or the firm, as the case may be, should maintain proper documentation as audit evidence, IRCON reserve the right to call for its review

**Part-IV:** Executive Summary of significant observations with the following summarized highlights:

### Key to Summary

<b>Critical</b>	Addresses a fundamental control weakness or significant operational issue that should be resolved by management as a priority.
<b>Important</b>	Addresses a control weakness or operational issue that should be resolved by management within a reasonable period of time.
<b>Good Practice</b>	Addresses a potential improvement opportunity in operational efficiency/effectiveness.

**Part-V:Persisting Irregularities with respective aging and** Action taken by the unit on previous Internal Audit Report

**Part-VI:** Important items which, in the opinion of the Auditor, should be brought to the notice of the AC

**Part-VII:** Irregularities noticed and rectified on spot and those not rectified with reasons

**Part-VIII:** Suggestions for systems improvement.

**Part-IX:** Comments on the Internal control framework in IRCON, its robustness and weaknesses.

**Part-X:** Comments on the unusual entries/transactions, if any

**Part-XI:** Comments on the implementation whistle blowers policy at project level

**Part -XII:** Comments on the implementation of CSR Policy undertaken / involvement by the project.

- The Auditor must discuss the draft report with the unit head, especially the matters related to risk management of the project, safety hazards activities of the before drawing up the final report and make a specific mention of this in his report.
- **Documentation** : The reference of documents checked must be part of the audit report
- The Auditor must deliver one copy of the report to the unit head for necessary compliance and send a copy of the full Report (in soft and hard both) to the head of Internal Audit Cell in the Corporate Office.
- The auditors to submit certificate duly signed jointly with project head to the effect that scope of audit as defined has been duly adhered to and the issues raised or observations made by the auditors have been discussed.
- No para of the Internal Audit Report can be taken as closed unless satisfactorily resolved. Outstanding paras will be carried forward to the next report and need to be properly addressed in Part-II of the Internal Auditor's Report.
- Internal Auditors are encouraged to suggest solutions to rectify the errors or deficiencies and not merely confine to making observations. Internal Auditors should also give suggestions for system improvement and ensure compliance of the audit observations at the Project site itself in their presence.



Calendar for projects, where Internal Audit is to be done on Semi-annual basis:

<b>Phase</b>	<b>Period Covering</b>	<b>Reports to be submitted by</b>
Phase I	1 <sup>st</sup> April to 30 <sup>th</sup> Sep	30 <sup>th</sup> Nov
Phase II	1 <sup>st</sup> Oct to 31 <sup>st</sup> Mar	30 <sup>th</sup> April

Calendar for projects, where Internal Audit is to be done on Annual basis:

<b>Phase</b>	<b>Period Covering</b>	<b>Reports to be submitted by</b>
Phase I	1 <sup>st</sup> April 31 <sup>st</sup> Mar	30 <sup>th</sup> April

## **Selection Process of Internal Auditors- Indian Projects**

- Section 138 of the Companies Act states that certain classes of Companies shall be required to appoint an internal auditor who shall either be a Chartered Accountant, Cost Accountant or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the Company.
- For hiring external Internal Audit firms/LLP selection of the Internal Auditors for Indian Projects is through publishing the advertisement in the newspaper for inviting EOI. Applications received are scrutinized base on the eligibility criteria and financial quote of the eligible firms will be opened.
- The final selection will be based on least difference (negative to the median be treated as the lowest) from the median quote of top six rated eligible firm.
- After selection of the firm/LLP for each Audit Circle, a panel of 3 firms for each audit circle will be made. In case of unsatisfactory performance/ non-acceptance of appointment letter of the selected firm, the firm next in the panel may be offered for appointment.
- Initial tenure for appointment as Internal Auditor is one year which is further extendable up to 3 years, based on the performance. The fee for the subsequent years will be fixed on the basis of quantum of work and inflation.
- In case of any change in periodicity of Audit during the year (from semi-annually to annually or vice-versa) there would be no revision of fee.
- There would be confidentiality clause in the appointment letter to be issued to each Audit firm
- The work of Internal Audit allotted to Audit firm/LLP should not be assigned to any other third party by the said firm.
- The auditors to submit certificate duly signed jointly with project head to the effect that scope of audit as defined has been duly adhered to and the issues raised or observations made by the auditors have been discussed.
- Payment of Audit fees will be made in two parts . 50% on submission of draft report (countersigned by the Project Head ) & 50% on acceptance of report by the Company.

- There should be a penalty clause, which authorized IRCON to impose the penalty maximum up to 10% of the fee, in case of any delay in the submission of the report. However, relaxation may be granted in case of genuine reasons beyond control of the Audit Firm/LLP.
- Apart from Audit fee, TA/ DA will be payable as per company rules. **The details of the reimbursements rules are attached as Annexure-B**

### (A) Eligibility Criteria-Indian Projects

S. No.	Particulars	Minimum requirement
1	Year of Establishment	10 years old (cut-off Date-31/03/2016)
2	Base Location	The Head Office of the Firm should be in the following Cities, where Company's Regional Offices/Project Offices are located : <ol style="list-style-type: none"> <li>1. Corporate Office Circle- Delhi NCR</li> <li>2. Northern Region Circle – Delhi NCR</li> <li>3. Eastern Region Circle – Kolkata</li> <li>4. Patna Region Circle- Patna</li> <li>5. Mumbai Region Circle –Mumbai</li> <li>6. J&amp;K Region Circle – Jammu</li> </ol>
3	Average turnover from professional services for last 3 years	Not less than Rs. 1.00 Cr.
4	No. of professionally qualified CA/CMA as partners/employee	10
5	Statutory Audit/ Internal Audit – No. of companies (with operating turnover more than Rs. 200 cr.) audited in last 05 years	04 (at least 01 should be in construction sector)

### (B) Basis for giving Technical marks-Indian Projects

S. No.	Particulars	Minimum requirement	Marks allocable	Max. Marks
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1	Year of Establishment	10 years old (cut-off Date-31/03/2016)	0.5 for each completed year	10
2	Average turnover from professional services for last 3 years	Not less than Rs. 1 Cr	01 for each Rs. 20 Lakh	10
3	No. of professionally qualified CA/CMA as partners/employee	10	<ul style="list-style-type: none"> <li>• FCA/FCMA-02 per person</li> <li>• ACA/ACMA-01 per person</li> </ul>	30
4	Statutory Audit/Internal Audit - No. of companies (with operating turnover more than Rs. 200 cr.) audited in last 05 years	04 (at least 01 should be in construction sector)	<p>Companies other than Construction Co. 5 per Co.</p> <p>Experience in construction Co.- 10 per Co.</p>	45
5	Worked as Central/Joint Statutory Auditor- No. of schedule A/ B PSU audited in last 05 years*	-	<p>Co. in Construction Sector - 05 per Co.</p> <p>Other Co.- 02 per Co.</p>	5
<b>Total</b>				<b>100</b>

*\*This is in addition to the firms to be considered under SI no. 4 above. No minimum requirement in this category; however marks will be allocated to the firm having relevant experience.*

### **(C) Evaluation Criteria for the final selection of the firm-Indian project**

On the basis of technical marks the top six firms in each region will be selected for opening financial bid. After tabulating the financial bid for every region the median quote of all the firms (maximum six) will be calculated and the difference from the Median quote will be tabulated. The least difference (negative/ least difference to the Median will be treated as the lowest) in quotes of the firm/firms from the Median quote will be selected.

In case more than one firm are having same quotes with same least and negative difference from the Median quote, then, we will compare the technical points of the above i.e. the firm which is having maximum number of technical points will be selected. If the technical points are also same then the firm which is having maximum number of years of experience in PSU firm will be selected. If more than

one firm is having same number of years of experience in PSU Company, then, the firm which is having maximum number of qualified staff will be selected.

To illustrate the example is given below:-

Firm No.	Tech Point	Exp with PSU Co. in No. of Years		Total experience in PSU	No. of Qualified persons	Quote (Rs.)	Difference from Average (Rs.)
		No. of PSU	Yrs				
1	95	1 1	3 3	6	30	400,000	-50,000
2	90	1	2	2	25	600,000	150,000
3	95	1 1 1	2 3 1	6	20	400,000	-50,000
4	90	1 1	2 3	5	50	200,000	-250,000
5	95	1 1 1	3 1 2	6	40	500,000	50,000
6	87	1	3	3	35	600,000	150,00,000

Median in this case is average of mid two quotes. In the above example Median is calculated as Rs. 450,000.00 i.e  $(4,00,000 + 5,00,000)/2$

The firms with least and negative difference will be identified first. In the above example, firms no. 1 and 3 have least & negative difference of Rs. 50,000 from the Median quote of Rs. 4,50,000. So, we will compare the technical marks of both, which are also same at 95. Next we will compare no. of years in PSU experience, which is again the same at 6 years. So finally the firm with higher no. of qualified staff will be selected.

In this case firm no. 1 with 30 staff will be finally selected.

## Selection Process of Internal Auditors- Foreign Projects

### Closed Foreign Projects, where books of Accounts are in C.O.

The Internal Audit of closed foreign project (where Books of Accounts are maintained at Corporate Office) is conducted by

Audit firm appointed as Internal Auditors for Corporate Office Circle.

### Running Foreign Projects and Closed Foreign Projects, where books of Accounts are still at the site:

1. For all other foreign projects, internal auditors are to be appointed by collecting technical and financial quotations from local professional firms.
2. Invitation for EOI is circulated through the competent professional body.
3. The quotations collected by the local project office will be directly sent to C.O. for processing and taking approvals from competent authority for appointment.
4. Applications received are scrutinized based on the eligibility criteria and the final selection will be based on lowest financial bid.
5. After selection of the firm for each country, a panel of 3 firms will be made. In case of unsatisfactory performance/ non-acceptance of appointment letter of the selected firm, the firm next in the panel may be offered for appointment.
6. Initial tenure for appointment as Internal Auditor is one year which is further extendable up to 3 years, based on the performance. The fee for the subsequent years will be fixed on the basis of quantum of work and inflation.
7. Apart from Audit fee, TA/ DA will be payable as per company rules.
8. The scope of the Internal Audit is same for both Indian and foreign Internal Auditors, with additional compliance of local laws of the country concerned.

#### (A) Eligibility Criteria-Foreign Projects

S. No.	Particulars	Minimum requirement
1	Year of Establishment	5 years old (cut-off Date-31/03/2016)
2	Base Location	The Head Office of the Firm should be in the City, where Company's Offices/Project Offices is located
3	Average turnover from professional services for last 3 years	Not less than Rs. 0.10 Cr. (in Equ. INR) in Algeria & Bangladesh and other projects Rs. 50 lakhs

4	No. of professionally qualified CA/CMA or equ. qualification as partners/employee	2
5	Statutory Audit/ Internal Audit – No. of companies (with operating turnover more than Rs. 500 cr. (in Equ. INR)) audited in last 05 years	02 (at least 01 should be in construction sector)

## Annexure-A

### Detailed Scope of Internal Audit

Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. Internal audit, therefore, provides assurance that there is transparency in reporting, as a part of good governance.

#### **Major areas to be covered during the course of Internal Audit**

The Internal Audit shall be carried out in accordance with the Auditing Standards and Accounting Standards prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the Auditor considers necessary under the circumstances. The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control with special emphasis on the following:

#### **Financial Accounting & Financial Reporting Systems:**

The overall Financial accounting & Financial reporting system to be checked thoroughly with the special stress on the below items:

- All Accounting is being done as per Accounting Standards and Accounting Policies of Ircon International Ltd.
- Cash, bank, journal vouchers including rectification vouchers are prepared correctly and trial balance is prepared accordingly.
- Project estimate, calculation of AS 7 and reporting turnover as per AS 7.
- Monitoring of physical and financial progress of work vis-a-vis targets (reference can be taken from MIS such as Performa-A and Performa-B, monthly control of expenses statement etc.)
- Bank statements & monthly bank reconciliation statements
- Balance confirmation with all Debtors & Creditors
- Foreign currency transactions
- TDS & payment of Statutory dues in time
- Prior period adjustments
- Provisions and contingent liabilities
- Bank Guarantees & FDRs
- Timely recovery of advances and interest.

## Tenders and allied matters

- Pre-tender Stage
  - The tenders should be floated as per Guidelines For Tendering (GFT), and approval of the competent authority as per the Schedule of Powers (SOP).
  - Ensure that the basis of preparation of estimates for work/package is realistic and logical (based on LAR, schedule of rates etc.), and has the approval of the competent authority as per SOP.
- Tendering Process
  - The Comparative Statement and the Briefing Notes should be vetted by Finance and their correctness should be checked based on random sampling method including compliance conditions on technicals with immaculate compliance with submission of requisite documents to qualify.
  - Tender Committee (TC) minutes should be verified to establish the reasonableness of rates (considering the special conditions, if any) and irregularities to be reported.
  - In the contracts, where client procedures are to be followed, ensure proper documentation and compliance of the same.
- Award of Work
  - Letter of Award (LOA) should be issued as per TC recommendations and only after finance vetting. An accepted copy of same should be verified to rule out any deviations /omissions.
  - Earnest money provided should be kept in safe custody and to be checked for sufficiency and validity.
- Contract Agreement
  - An agreement should be executed within the time stipulated by LOA and should be signed by competent authorized signatories.
  - Checking of contract conditions before paying or receiving mobilization or other advances by the project

## Project Execution

- Monitoring of physical and financial progress of work vis-a-vis targets (reference can be taken from MIS such as Performa-A and Performa-B, monthly control of expenses statement etc.)
- Comparative study of the actual costs vis-a-vis sanctioned estimates, and major deviations are to be reported.
- Reconciliation between total work done, work certified and uncertified, work billed and unbilled, payments received from the client, recoveries including taxes, retention money, performance



guarantee, mobilization and plant advance, interest, etc., in terms of the contract.

- Analysis of work-in-progress in the context of work done and ageing of total outstanding. WIP to be further scrutinized with the following break-up – work done but not certified, work done, certified but not billed and work done, certified and billed but not paid.
- Analysis of variation orders executed, which is, work done not expressly provided in the contract, certified and billed, basis of rates billed, certified and approved and pending for approval.
- Scrutinize present status of work that is still to be executed, with respect to the contract for any changes in BOQ having material impact on the project, with acceptance from the client.
- Checking calculation of escalation bills based on monthly indices released by RBI.
- In cases, where extension of completion date of the contracts is required, the delay should be properly justified and validated by approval from competent authority. Further, Liquidated Damages (LD) should also be imposed, as per the provisions of the contract, wherever required.
- Any non-schedule item should be supported by proper approvals from competent authority.
- In case of departmental work, realistic estimates of the work should be prepared and approved by competent authority. Further, material procured and consumed should be properly reconciled at frequent intervals

### **Procurement of materials, recording of Receipts and issues including client materials**

- Robustness and sufficiency of processes
- Details of tenders awarded on nomination and single tender basis, whether any splitting of procurement in order to circumvent tender policies is observed?
- Ensure classification of all materials into major materials, semi-finished materials, and other materials like equipment and machinery spares, general stores and consumables, safety items, construction aids, miscellaneous service items, etc.
- Verification of purchase procedure on the basis of indents, purchase orders, quotations, price comparative statements, authorized distributor list, etc.
- Checking of material receipts on the basis of purchase orders, delivery challans/ invoices, weigh slips with the goods receipt notes.
- Compliance to quality control procedures.
- Checking issue of materials on the basis of issue slips, authorized signatory list, etc.

- Proper allocation of material issues to respective work orders of subcontractors/piece rate workers in case of subcontracting cost centers in case of internal consumption.
- In case materials are issued to subcontractors on recoverable basis, check correctness of recording the issues, promptness of making recoveries and rates at which recoveries are made generally conforming to cost plus handling charges.
- In case of material transfer between projects, check the indents, gate passes, delivery challans, confirmation from receiving sites and rates of recording transfers.
- To check the correct recording of material receipts at the yearend cut-off dates.
- Monthly quantitative reconciliation of major materials like cement, steel, aggregates, sand, etc. for computing the theoretical consumption based on work done and comparing the theoretical balance with actual physical balance and actual wastage with the standard norms.
- Analysis of slow moving inventory.
- Checking records of reusable items like shuttering materials, safety equipment, etc.
- Checking records of scrap with physical stock, billing of scrap sold, VAT and TCS, as applicable.
- Inventory valuation including transportation and other acquisition costs and proper allocation of other overheads based on appropriate valuation method.
- Physical verification of major items, particularly cement, steel, chemicals, expensive spares and consumables store items.
- Proper segregation between own materials and client materials.

### **Plant and Equipment**

- Physical verification of equipment owned by IRCON.
- Checking logbooks to ensure proper record keeping.
- Analysis of fuel consumption and utilization of major plants through scrutiny of monthly MIS reports.
- Comparison of fuel consumption of similar equipment and actual with standard norms.
- Analyse utilization of own equipment vis-à-vis hired equipment with respect to the volume of work done.
- Checking validity of rates of hired equipment compared to the market rates.
- Cross verification of data of equipment-wise diesel consumption reported by plant section with diesel issues shown by the stores section.
- Verification of system of capturing data and reporting of plants fabricated at site.

## Sub-contracting

- Ensure the timely submission of performance guarantee, as per the provisions of the contract
- Mobilization plan (for plant & machinery, manpower etc.) submitted by sub-contractor should be as per provisions of the contract
- Labour license requirements need to be verified, as per Contract Labour (Regulation and Abolition) Act 1970
- Proper monitoring of the milestones achievements (physical and financial both), as per the provisions of the contract
- In cases, where IRCON is providing the machinery, usage of the same needs to be verified with log books.
- Advances to the sub-contractor, such as mobilization advance etc. should be need based and to be given strictly as per the provision of the contract, ensuring the sufficient collateral (in form of bank guarantee etc.)
- Scrutinizing monthly running account (RA) bills of the subcontractors with respect to the work orders relating to the quantity of work, rates, plant and mobilization advance, interest (if any), retention deposit, WCT, TDS, material recoveries, deductions for services availed, liquidated damages, etc.
- Ascertaining back-to-back recoveries from sub-contractors bills of deductions on account of work made by the client.
- Ensuring all work outsourced to third parties is supported by proper work orders/agreements.
- Proper upkeep and maintenance of measurement books (MB) of all outsourced work.
- Analysis of time taken for the clearance of bill and final payment from the date of submission of the bill.
- No claim certificate from Sub-contractor should be obtained with final bill.
- Contractor & Supplier ledger should be properly maintained

## Client billing and receivable

- Checking the billing terms and conditions, which are either defined in the MOU signed between client and IRCON or as per the provisions of the contract.
- Ensure that the timely bills are being raised as per provisions of the billing terms and conditions. Major deviations are to be reported.
- Collections from the client with respect to the contractual collection period. Scrutiny of receipts in bank, otherwise than from cheques received from clients.
- The review of the receivables has been carried out as per Guidelines issued by Company from time to time.
- Receivables ageing and realization analysis
- In case of final bill, ensure that it should include variation in quantity, non-schedule items, price escalation etc, if any.

## Profit and Loss Analysis

- Comparing the actual expenses incurred with the budget estimates and analyzing the variances. Obtaining comments from the management

## Establishment matters

- Checking of wages and salaries of different categories of employees including officers, contract staff, monthly and daily rated workers on the basis of their respective terms and conditions of employment.
- Test check a few individual files of personnel posted at site.
- Comparison of actual manpower deployment with the monthly budgets.
- Ensure compliance of PF and ESIC laws in case of piece-rate workers employed by the project through sub-contractors.
- Surprise attendance verification of manpower deployment by pieceworkers, if terms of payment are dependent on actual attendance, particularly in case of security guards and helpers.
- Verify the records with special attention to LTC, Medical rules, Final Settlement, Travelling allowances, Staff Loans/Advances, Foreign Service Contribution (FSC) etc.

## Statutory registrations, deductions and payments

- Identification of legal framework and statutes as applicable and compliance thereof
- Check registrations/renewals with different statutory authorities like labour department, PF, ESIC, VAT, Service Tax, Professional Tax, mining department, explosives license, pollution control, petroleum products, electricity and water supply authorities, etc.
- Ensure correct deductions and recoveries of taxes and statutory levies like TDS, TCS, WCT, VAT, Service Tax, PF, ESIC, Professional Tax, labour Cess etc.
- Ensure timely payment and deposit of taxes and other statutory levies.
- Adherence to time limits in filing prescribed returns.
- Verify system of availing input tax credit on purchases and service tax against liability of VAT/WCT and Service Tax through a proper procedure of set-off.
- Reconciliation of royalty payments on purchase/mining of boulders/aggregates and deductions made by the client with actual liability on the basis of work done and ascertainment of year-end liability.
- Status of assessments before various tax authorities.
- Details of statutory disputes and cases pending before various authorities with financial implications for being treated as contingent liabilities.

## Assets and Liabilities

- Ageing of advances and scrutinizing debit balances, including advances to staff, workers, suppliers, subcontractors, pieceworkers and other parties. Classification into recoverable and non-recoverable advances. Assessing the adequacy of provision of doubtful advances. Matching advances against corresponding liabilities.
- Assessing the proper estimation and adequacy of provisions made at the year-end and outstanding liabilities. Scrutinize all credit balances.
- Identifying pre-paid expenses.
- Maintenance of Fixed Assets register, Physical verification and calculation of depreciation.
- Variations in quantity & price as per contract conditions & approval there of
- Claims management system and review of that.

## Insurance Policies

- Coverage of the entire project under a comprehensive Contractors All Risk insurance policy (CAR) for the full duration of the project with additional claim period. Ensure all premium instalments are paid on time.
- Insurance coverage of all the plants and equipment installed at the project.
- Personal accident and workmen's compensation policy for all the staff including contract labour engaged at the site.
- Cash insurance cover for cash in-transit between the bank and the project site and cash held in safe at the office.
- Ensuring that all accident and injury claims of project staff or of third parties against the project are claimed from the insurer

## Compliance of the IRCON policies

- A special emphasis on the compliance of various policies issued by IRCON, such as policy for Management of Surplus Funds, Enterprise Risk Management policy etc. Any deviations are to be reported.

## Miscellaneous Matters

- For arbitration, court cases and contingent liabilities, proper provisions should be calculated and booked.
- Compliance made by the project upon comments made by the Statutory Auditors in its report under sec. 619(3).
- Any material procured from Micro, Small and Medium Enterprises (MSME), provisions of MSMED Act to be followed.
- Review of the deposit with Govt. Departments such as Electricity, Water, and Telephone etc.

- Comment on risk assessment and risk mitigation mechanism in the project
- Detection of systemic flaws and suggestions for adopting corrective measures.
- Irregularities of serious nature noticed during audit are to be reported to the Head of Internal Audit Cell through a special report.

### Special items for Corporate Office

- Since the type of work handled at C.O. is different than of projects, the scope for Internal Audit of C.O. is required to give additional attention to the below:
  - Taxation Issue including statutory compliances
  - Treasury matters including management of Indian and foreign funds
  - Payroll and leave records

Note:

- *The details above are not to restrict the Scope of Internal Auditors but are only to meet with the minimum specific requirements for the internal control of company.*
- *Internal Auditors are encouraged to suggest solutions to rectify the errors or deficiencies and not merely confine to making observations. Internal Auditors should also give suggestions for system improvement and ensure compliance of the audit observations at the Project site itself in their presence.*

### Knowledge resource/documents to be referred

The indicative list of the knowledge resource/documents, which are to be referred before embarking the assignment includes:

- i. Standards on Internal Audit issued by ICAI (SIA1 to SIA 18, issued so far)
- ii. Technical Guide on Business Control, Monitoring and Internal Audit of Construction Sector issued by ICAI
- iii. Technical Guide on Internal Audit of Tendering Process issued by ICAI
- iv. Generic Guidelines on Internal Audit issued by ICAI including Guide on Risk-Based Internal Audit, Guide to Internal Financial Controls, Enhancing Governance through Internal Audit etc.
- v. Schedule of Powers issued by CS Cell in Corporate Office
- vi. Guidelines For Tendering(GFT) issued by Corporate Office
- vii. General Conditions of Contract (GCC) issued by Corporate Office
- viii. Project Contract documents duly signed by IRCON and Client
- ix. Closing guidelines issued by Compilation Cell in Corporate Office
- x. Circulars/guideline/policies on various matters issued by concerned Department on time to time basis

Available with the concerned project

## Annexure- B

### Rules for Reimbursable Allowances

Whenever Internal Auditors or their staff is required to travel outside the local station, they would be entitled to claim the following allowances:

1. **Travel Expenses** : These shall be reimbursed as per the following guidelines:

Partners - Actual travel expenses by Air /AC FIRST CLASS

Articles/Audit Clerks -Actual travel expenses by Rail AC II Tier

2. **Daily Allowance** : These shall be reimbursed as per the following guidelines:

Partners - as payable to General Managers, in IRCON i.e. Rs. 780/- in all cities.

Articles/Audit Clerks - as payable to AM in IRCON, i.e. Rs.510/- in all cities.

Where free boarding and lodging is provided by the project, daily allowances would be limited to 20% of the entitlement.

3. **Charges for Accommodation:** Accommodation to auditors consistent with their status would invariably be provided by the project. However where the auditors themselves make their own arrangements, the reimbursement for hotel accommodation would be allowed as per equated entitlements indicated as follows:

Partners - entitled to Rs.10,000/- in X class cities, Rs. 8,000/- in Y class cities and Rs.6,000/- in other cities.

Articles/Audit Clerks - entitled for Rs.2400/- in X class cities, Rs. 2200/- in Y class cities and Rs.1760/- in other cities.

#### **Note:**

The claims for reimbursement of above allowances should contain following information:

No. of persons deputed to conduct the Audit along with their designations.

Date and time of departure as well as arrival of the train (s) at starting /destination stations.

No. of days spent for audit at the project.(stay certificate to be attached)

In case of travel by Air/Train, Boarding Pass/Tickets should be enclosed with the bills.

(Above details should be duly verified from the Project Head before submission of claim to the Corporate Office.)