

**KERALA STATE BACKWARD CLASSES  
DEVELOPMENT CORPORATION LIMITED**  
THIRUVANANTHAPURAM



MANUAL OF  
INTERNAL AUDIT PROCEDURES

**2008-2009**

**RESOLVED by**  
**106<sup>th</sup> Board Meeting held on 22.08.2008**

(Total Pages- 35)

## CONTENTS

### *Chapter I*

1.	Internal Audit - Meaning	04
2.	Purpose	05
3.	Organization set up of internal audit function	05
4.	Internal Control – Meaning	06
5.	Rules for Guidance of Audit	07
6.	Financial Propriety Under Auditor General's – Audit code	08
7.	General Principle for Audit on payment and Vouching on payments	09
8.	Vouching on Cash Receipts	11
9.	Internal Audit on Different Functional Areas	12
10.	Internal Audit on Budget and Budgetary Control	13

### *Chapter II*

11.	Scheme Implementation	14
-----	-----------------------	----

### *Chapter III*

12.	Audit Function on Accounting Areas	15
13.	Audit on T.A. Bill	16
14.	Checking by totaling	17
15.	Audit on Imprest Cash	17
16.	Audit on Property Security	18
17.	Audit on Bank Reconciliation	18
18.	Audit on Stock Register	19
19.	Audit on Fixed Asset Register	19
20.	Audit on Verification of Beneficiary Pass Book	19
21.	Audit on Surety Index Register	20
22.	Audit on Security Bond / Surety Bond	20

#### ***Chapter IV***

23.	Audit on Recovery and Repayment Collection	21
24.	Statement of Objections – Procedures to be followed	22
25.	Follow up Action on Audit Report	23

#### ***Chapter V***

26.	Personal and Administration audit on Administration	24
-----	---	----

#### ***Chapter VI***

27.	Audit Report	25
28.	Audit Findings and Report	26
29.	Audit Report on Accounts	27

#### ***Chapter VII***

30.	Miscellaneous – Returns to Head Office	28
31.	Audit report on up keeping of records, register, files etc	29
32.	Scheme Implementation	29
33.	Audit Report on Recovery	30
34.	Audit on Core Banking receipts	30

#### ***Chapter VIII***

35.	Glossary Used in Internal Audit	31
-----	---------------------------------	----

**INTERNAL AUDIT**

**Chapter 1**

**MEANING**

“Internal Auditing is an independent appraisal activity within an organization for the review of operations as a service to management”. It is managerial control which functions by measuring and evaluating the effectiveness of other controls.

- a) Internal Audit is a continuous and systematic process of examining and reporting the operations and records of the Corporation.
- b) It is concerned with routine checking of accounting transactions on a daily basis with the objects of quickly locating irregularities, there by making it difficult to perpetrate fraud.
- c) It is also concerned with periodical review of organizational system and procedures.
- d) Internal audit is an extension of and complementary to statutory audit.
- e) It is intent to looking efficient working of the Corporation to pin point unhealthy situations, misdoings etc.
- f) It is an independent appraisal and review technique which can ensure reliability and promptness of MIS and management reporting by which the management can take firm decisions.
- g) Internal audit is an integral part of internal control system.
- h) It ensures compliance with law, policies, plans, procedure, regulations etc.
- i) It safe guards Assets and efficient use of resources.
- j) It helps accomplishment of established objectives of the Corporation and goals of the Corporation.

## **INTERNAL AUDIT**

### **Purpose**

1. Internal Audit is to conduct effective audit on all receipts of the unit offices and to ensure that all collections are properly receipted and recorded in account books.
2. To exercise effective check against commission of irregularities in various stages of collection and recording in books of accounts for avoiding possibility of commission of fraud, falsification embezzlement of money.
3. The audit will see that no money owed to the Corporation is left outstanding for long without reasons. The concurrent audit shall carefully watch such overdue amounts and ensure proper recovery.

In case of reported frauds the audit team to exercise special zeal in investigating the same and bring to light. Audit shall closely scrutinize to see whether the fraud or embezzlement is possible due to defect in rules or due to neglect of rules or lapse of supervision. It is incumbent upon the audit to suggest measures to prevent likely recurrence of such commitments of fraud/defalcation/ falsification of records.

The internal audit is to keep in mind the general principles of financial propriety while conducting audit.

The general principles laid down in the Auditor Generals Audit Code contains the generally accepted standards of financial propriety as noted below-

### **Organization set up of internal audit function.**

Internal Audit wing of KSBCDC is under the charge of Internal Audit Officer and it's headquarter is at Head Office of the Corporation. He will supervise and co-ordinate the internal audit work and is functionally under the control of Manager (F & A). The internal audit officer at Head Office will be assisted by 3 teams of internal audit constituted separately for Northern region, Central region and Southern region. The Internal Audit Officer, Head Office will prepare the audit programme and the team will conduct audit of activities in unit offices. The activities covered under audit and the time schedule with which the review of audit is to accomplish will be enumerated in the audit program duly approved by higher ups. The audit team is to conduct the audit as per audit programme.

## **INTERNAL CONTROL**

### **Meaning**

It is the plan of organization and all the methods and procedures adopted by the management of the Corporation to assist in achieving the management objectives of ensuring as far as practicable the orderly and efficient conduct of business including adherence to management policies, the safeguarding of assets, the prevention and detection of frauds and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information.

Internal Audit and internal check are two important tools of internal control.

## **RULES FOR GUIDANCE OF AUDIT**

Audit team shall be fully acquainted with the following before commencing audit.

1. KSBCDC Guidelines for project implementation.
2. Accounting manual.
3. Manual of recovery procedure.
4. Provision of Kerala Service Rules Part I & II.
5. Circulars and orders issued from Head Office from time to time
6. Revenue Recovery Act and Rules.
7. Guidance note on Micro Credit scheme.
8. KCS (CCA) Rules and Other relevant Acts and Rules applicable to the Corporation.
9. NBFC rules and NPA Classification.
10. Government Orders, Rules, Circulars, instructions relevant to the Corporation.
11. Delegation of powers issued from Head Office.

## **FINANCIAL PROPRIETY UNDER AUDITOR GENERAL'S –**

### **AUDIT CODE**

- 1) The expenditure should not prima facie more than the occasion demands. Every public office is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- 2) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- 3) Public moneys should not be utilized for the benefit of a particular person or section of the community unless –
  - a) The amount of expenditure involved is of insignificant.
  - b) A claim for the amount could be enforced in a Court of Law or
  - c) The expenditure is in pursuance of a reorganized policy or custom.
  - d) The amount of allocation such as TA granted to meet expenditure of a particular type, should be so regulated that the allowance are not on the whole a source of profit to the recipients.



## **1) GENERAL PRINCIPLE FOR AUDIT ON PAYMENT**

### **AND VOUCHING ON PAYMENTS**

- a) The payment is permissible under relevant Act, Rules or is not opposed to the orders issued from Head Office.
- b) The payment vouchers are prepared correctly in accordance with the rules.
- c) The voucher totals are noted both in figures and in words correctly.
- d) The receipts of payments in excess of Rs. 5000 are duly stamped except in cases exempted.
- e) No erasure/alteration/overwriting especially the amount and in case of such erasure/alteration, it shall be attested by the officer or the party concerned as the case may be.
- f) Check all the vouchers, sub vouchers, payees receipts/acknowledgements.
- g) The audit is to ensure the payment is with proper sanction and is issued by the officer competent to incur it.
- h) Payment shall be made to rightful payee only.
- i) No excess payment.
- j) No objectionable payment.
- k) No illegal payments/payments without sanction of competent authority.
- l) No wasteful expenditure.
- m) Whether advance wrongly or unnecessarily or excess made.
- n) Whether advance remain unadjusted for long period.
- o) Payments made without taking stores into stock.
  - p) To ensure that there is provision of funds for the expenditure duly authorized by competent authority.
  - q) The procedure stipulated under law for entertaining the claims have been duly observed.
  - r) The rules governing the method of payment duly observed by the disbursing officer.
  - s) That the payment has been made to proper person, properly acknowledged and recorded in book of accounts and further claim for the same is made impossible.

- t) The expenditure against which the payment is made has been properly classified under proper heads of accounts in the accounting records.
- u) It is the primary duty of the auditor to see that every item of expenditure is covered by the sanction of appropriate authority and the sanctioning authority possess full power in respect of expenditure under audit.
- v) In case the payment under the expenditure requires higher sanction the audit should record its remarks.
- w) Split up payments to avoid higher sanction also commented with remarks.
- x) It is also significant for the audit to bring to light not only cases of irregularities but also every matter which in its judgment appears to involve improper expenditure or waste of money or stores even though accounts are in order or no obvious irregularities revealed.

## **2) VOUCHING ON CASH RECEIPTS**

- a) In checking of collection, the audit shall see that all amount received are issued by computer generated receipts duly initialed by Cashier. In case computer not in use, the cash receipt must be machine numbered, stamped with dated cash seal duly initiated by cashier.
- b) Carbon copy (duplicate/triplicate) of the receipt of the computer generated/machine numbered receipts shall be sorted, chronologically arranged and properly filed under safe custody.
- c) Receipts are noted with amount in words and figures and no correction/alteration/erasure/overwriting.
- d) The name, loan account number etc. of the loanee should be clearly noted in all remittances.
- e) No person other than cashier allowed to receive any remittances.
- f) Verify the system generated cash receipts with the register maintained by cashier and ensure no difference.
- g) Total collection summary of cash receipt of each day check it with total in cash book.
- h) Trace the daily remittance in bank and ensure total collection of a day deposited in bank on the same day or very next day itself.
- i) Verify cash movement register and ensure the amount deposited in bank is the same as that of collection of the previous day/same day.
- j) Verify, cash in transit is properly insured.
- k) Verify bank pass sheet/pass book/bank statement and see the collection correctly deposited in bank.
- l) Trace the counterfoils of pay in slips with pass sheet/bank statement.
- m) See the pass book is written up only by the Bank Authorities.
- n) Check the opening balance of cash of each day in Main Cash Book with closing balance of the previous day.
- o) Unit Office exercises proper control over cash collection/more interest/deposit in Bank etc and report whether superstition is effective.

## **INTERNAL AUDIT ON DIFFERENT FUNCTIONAL AREAS**

1. Where in case the cash collection of a day and remittances in bank any short remittance is found out, the fact shall be reported in the Audit Report and the person at fault may be asked to make good the short remittance without delay. Delay in remittance in Bank may be brought to the notice of Unit Head.
2. Whenever misappropriation or defalcation or falsification of accounts is discovered, the fact shall be immediately reported to the Manager (F&A) / Managing Director from the camp unit itself.

### **Audit on Accounts**

Internal audit should ensure that all amounts received/paid have been properly accounted.

### **Auditing on Printing**

1. See whether stores purchase rules are observed before issuing work order for printing.
2. In case of payment of printing and stationery bills verify respective quotations, rates quoted and ensure that the goods are received and duly entered in the stock register.

### **Audit on payment of Salary bills**

1. Verify salary payments and ensure veracity as to Basic pay, DA, other allowances admissible as per rules and ensure no excess payments.
2. Verify leave salary and ensure that eligible leave alone are encashed by surrender.
3. Ensure that necessary entries made in Service Book as to leaves like Half Pay Leave, Commuted Leave, Leave Without Allowance, Earned Leave and on its surrendering for encashment.

### **Auditing on petty cash book**

- a) Physically verify cash balance of chest cash account.
- b) See the average cash level hold and compare it with requirements.
- c) Check petty cash book balance with cash in hand.
- d) Ensure the petty cash balance not in excess permitted by Head Office.

**INTERNAL AUDIT ON BUDGET**

**AND**

**BUDGETARY CONTROL**

Internal audit shall verify budget provision in respect of each scheme and ensure that the project implementation is progressing accordance with the target fixed for each unit office. Expenditure is confined to budget provisions under each head of account. Adverse deviation shall be reported.

Ensure proper financial control over each expenditure.

The work of Internal Audit is primarily confined to four broader areas and audit report shall be classified under these four classifications.

1. Scheme implementation operational effecting.
2. Recovery and repayment collection.
3. Accounts.
4. Service matters and general Administration.

## Chapter 2

### **1. SCHEME IMPLEMENTATION**

Audit shall see the scheme implementation is progressing according to the pre-fixed target. General guidelines on scheme implementation contain detailed procedure for project implementation and deviation if any noted shall be reported in respect of-

- 1) Adequacy of security as per Head Office guidelines.
- 2) Income criteria and class/community criteria strictly followed.
- 3) In case of employment surety, confirmation of genuineness through registered post only.
- 4) In case of collateral security like landed property
  - a. Legal opinion obtained - no defects / defects rectifying before acceptance.
  - b. Minimum extent of land as per rules – 4 cents for resident property / no minimum limit for commercial property.
  - c. Land value is sufficient as per norms – Not less than loan amount.
- 5) No inordinate delay in granting of loans and no overlooking of turn in sanctioning of loan.
- 6) Document Register is properly maintained and all documents are serially numbered and kept under safe custody.
- 7) Before effecting payment, verification report is prepared by the Assistant duly verified by Assistant Manager and sanctioned by unit head.
- 8) The security offered is as per the norms of the Corporation and stipulated under general guidelines.
- 9) Sureties retire one year after the expiry of loan period.
- 10) Proper verification regarding the identity of the loanees and sureties and their existing liabilities has been conducted and properly recorded by the respective authorities while recommending loan sanction.
- 11) Collateral security/surety security was properly recommended and accepted by the Unit Head.

- 12) Surety applications are properly filled up and signed by the surety and drawing officer duly affixed with office seal and date.
- 13) That the agreement for recovery from surety is not conditional in case of surety where salary recovery is enforceable.
- 14) That the documents are properly signed by the loanee and sureties and that the signature in the surety applications is similar and identical to those in the document and the scrutiny note / verifying report contain a certificate to this effect.
- 15) That the surety bond./security bond is properly filled up and duly witnessed.
- 16) In case of property security, legal opinion has been obtained, shows clear marketable title and the conditions if any contained has been cleared before executing document.
- 17) Non-Encumbrance Certificate obtained up to the date of execution of security document.
- 18) That Title deed deposit Register is properly maintained and signed by the Unit Head before making payment.
- 19) In case of fixed deposit received as surety, it has been duly discharged (stamped) and the KSBCDC's lien noted thereon.
- 20) In case of LIC policy, it has been duly assigned in favour of the Corporation.
- 21) The surrender value of LIC policy accepted as security covers the amount to be secured.
- 22) That the required processing fee (including LDRF), postage, legal charges has been collected before making loan payment.
- 23) That the loan payment details entered in the Personal Ledger folio of the loanee.
- 24) That the Cheque Issue Register is entered with the payment details.
- 25) That the Document Register is entered with the payment details.
- 26) That "paid seal" affixed in the Ration Card of the loanee.
- 27) That the payment has been made by means of "Crossed cheque".

## Chapter 3

### AUDIT FUNCTION ON ACCOUNTING AREAS

The audit shall thoroughly scan the Cash Book/Bank Book and see no irregular transactions and also -

1. Ensure no irregular retention of money in the hands of any officer.
2. Unremitted balance on the date of commencement of audit shall be verified and a certificate to that effect should be recorded by the inspecting officer.
3. The pass book/bank statement shall be verified thoroughly so as to ascertain that the entire entries are genuine. In case of doubt information shall be obtained directly from the bank about fund balance.
4. Stock Register of valuable properties, priced forms, receipt books etc should be verified carefully. Correct stock position to be certified by the auditor.
5. Audit shall also report that the Unit Head, Assistant Manager and other supervisory staff have exercised proper supervision over the working of the unit.
6. Audit shall see the defects pointed out in the previous report have been remedied and if not report.

#### Audit on T.A. Bill

1. That the T.A. claims is in the proper form.
2. The purpose of journey is properly stated in the bill.
3. The hours of journey began and ended has been noted.
4. That the journey was actually performed.
5. That the journey was authorized by competent authority.
6. That the cost of carriage of personal effects and conveyance etc are supported by receipts while preferring claim.
7. That claims on account of TA of officers summoned to give evidence are supported by certificate from courts, in the prescribed form.
8. No TA claim is permissible for journeys with in a radius of eight k.ms from Head quarters.
9. Amount claimed is correct as per eligibility as stipulated under TA rules.
10. The pay, scale of pay noted is correct as per pay bill.
11. Refer railway time table for ascertaining correct railway fare.



### **Checking by totaling.**

1. Total daily cash collection.
2. Total cheques/Demand drafts received Register day wise.
3. Total Money Order received.
4. Ensure all these collections are properly entered in cash book of the day and cross tallied.
5. Ensure money order received on a day properly entered in money order register on the day of receipt and accounted.
6. Ensure money orders not received in the personal names.
7. Total processing fee cross check with total loan disbursed / total LDRF collected.

### **Imprest Cash**

Audit shall see imprest cash system has been maintained in the unit office and –

- 1) Maximum cash maintained under imprest cash system is not exceeded the limit permit from Head Office.
- 2) Only actual expenses are met out of imprest cash.
- 3) Total all columns in the imprest cash book.
- 4) Expenses met out of imprest cash properly classified under relevant heads of account and incorporated with main cash book of unit at least once in a month.
- 5) On replenishment imprest cash should not exceed the maximum limit permitted.

## **IN CASE OF PROPERTY SECURITY**

### **THE AUDIT SHALL SEE-**

1. That the title deed deposit register is properly maintained and signed by the unit head before making the payment.
2. Non Encumbrance Certificate up to the date of execution has been obtained before effecting payment.
3. Legal opinion from the panel of advocates obtained before accepting the property security.
4. Defects if any noted in legal opinion cleared before such acceptance.
5. Minimum extent of landed property required as per scheme guidelines is obtained for acceptance.
6. Amount as per valuation certificate is sufficient to cover loan amount as per scheme guidelines.

### **BANK RECONCILIATION**

1. Audit shall verify Bank Reconciliation Statement of all the bank accounts maintained by the unit in tally / manually
2. Verify whether there is undue delay in receiving credit, in respect of cheque sent for collection.
3. Verify whether cheques issued remain un-presented for a period more than six months if so entry reversed and accounted under the Head “payable”.
4. Verify that the bank charges collected are as per the arrangements with the banks concerned.
5. Verify that the bank charges/collection charges incurred in respect of cheque dishonored are debited to the loanees concerned.
6. Verify whether bank charges are realized from the loanees on outstation cheques as per bank statement.

### **STOCK REGISTER**

1. Audit shall see that forms, Stationery records, Registers etc received from Head Office and local purchases are properly entered in the Stock Register.
2. Ensure along with quantity, value of each stock is recorded in the Register.
3. Ensure that issue of stock is under proper acknowledgment from the staff concerned.
4. Ensure physical verification of stock by the Unit Head periodically and record the fact of physical verification by the unit Head by way a certificate as required under law.
5. Ensure no discrepancies in physical verification and stock as per records if so necessary correction recorded.

### **FIXED ASSET REGISTER**

1. See that all assets purchased are entered in the register numbered serially and properly maintained.
2. Fixed assets classified properly as gross block, net block of assets.
3. Verify physical stock of assets at the end of every year and certify it.
4. Ensure the cost of assets purchased and the date of purchase are properly entered in Fixed Asset Register.
5. Ensure depreciation provided under written documents value method and the close of the year.

### **VERIFICATION OF BENEFICIARY PASS BOOK**

At the time of audit, the inspecting officer shall collect a few beneficiary Pass Book from the loanees who come for remittance at the counter and satisfy that the entries made therein are correct and complete.

### **SURETY INDEX REGISTER**

Check whether all the names of surety accepted have been properly entered in the surety Index Register.

### **SECURITY BOND / SURETY BOND**

Select at Random few documents and see that-

- a) The verification report tallies with the loan particulars.
- b) The sureties offered and accepted are as per norms stipulated under general guidelines on scheme implementation.
- c) That the sureties retire one year after expiry of the loan period.
- d) That proper verification as to identity of the loanee, surety has been conducted and recorded before making recommendation for loan disbursement.
- e) That the sureties were properly recommended and accepted by the unit head.
- f) That the surety applications are properly filled up and signed.
- g) That the Employment certificate and /or agreement for recovery from pay have been signed by the drawing and disbursing officer concerned and the office seal affixed there on with date.
- h) That the agreement for recovery from pay is not conditional.
- i) That the security bond /surety bond are properly signed by the loanee and sureties and that the signature in the surety application are similar and identical to those in the security/surety bond.
- j) That the security/Surety bond is properly filled up and duly witnessed.

## Chapter 4

### **AUDIT ON RECOVERY AND REPAYMENT COLLECTION**

1. Check the age wise defaulters list prepared by the unit.
2. Scrutinize the follow up action taken in each individual default cases.
3. Manual of recovery procedure contains elaborate procedure to be adopted in follow up action and ensure the unit office comply the stipulations contained thereon.
4. Check whether notice issued invariably at the first instance of default.
5. See registered notices sent in time.
6. In case of returned registered notices, see whether the loanee/Sureties are of fictitious nature, if so report to Head Office.
7. See whether salary recovery notices issued to the Drawing and disbursing officer in time and prompt follow up action taken thereafter.
8. See reminder notice issued to Drawing and disbursing office, when there is no response to the original salary recovery notice.
9. In case the Drawing and disbursing officer is reluctant to effect recovery the matter is taken up with higher ups.
10. See revenue recovery action is taken in case the default is huge and the party is reluctant to clear the dues.
11. In revenue recovery initiated cases audit see the unit is closely watching the realization and making effective follow up action with revenue authorities.
12. Audit to see defaulted dues are cleared before it become time bar.
13. In case loan outstanding becomes time bar report the persons responsible for the laxity.
14. See correct DCB is sending to Head Office as per guidelines.
15. Check the prefixed target for each unit and see the unit has taken all effective measures to achieve the target.
16. In case the unit persistently and continuously fails to achieve the target audit report shall contain specific remarks.
17. Check all closed loanee accounts and verify all the dues cleared before releasing of documents.
18. Audit shall affix their audit seal with initial in token of verifying the closed files.

**STATEMENT OF OBJECTIONS –**  
**PROCEDURES TO BE FOLLOWED**

Objections noticed on audit in unit offices shall be prepared with copy. Copy to be given to the unit offices for sorting out the issue and only unsettled issues need be incorporated in the audit report. While preparing objections the number and date of voucher or the date of receipt and other particular should be noted in the objections statement so as to obviate any further reference to original voucher or receipts (preferable to take photo state copies of voucher/receipt as the case may be)

In objection statement, the nature of objection shall be recorded with sufficient details, the rule or order violated and the person responsible for loss or illegal payment should be mentioned in the statement.

Observation of the audit, objections, suggestion regarding defective maintenance of accounts, incorrect case of forms, suggestion for improving the state of finance, improving the procedure for scheme implementation, recovery can also be recorded. The audit report should accompany with objections statement/audit enquiry and replies received there to and send to internal audit officer, Head Office for taking rectification, corrective steps.

### **FOLLOW UP ACTION ON AUDIT REPORT**

On receiving audit report, audit quarries, replies to audit quarries internal audit officer at Head Office will scrutinize the same. Audit enquiry which has been satisfactory explained shall be admitted. In other case of audit objections/remarks, suitable comments should be made and communicated to the unit office for reply/remark. The audit report shall be filed only after all the objections have been settled. In case of audit finding involves financial loss to Corporation, it shall be brought to the notice of Managing Director for taking appropriate decisions to make good the loss.

## Chapter 5

### PERSONAL AND ADMINISTRATION

#### AUDIT ON ADMINISTRATION

While conducting audit on Unit Office the audit should see.

1. That the entire activities of the Unit Office is clearly defined and properly assigned to all the employees of the unit.
2. That, there is effective supervision is ensured in all activities-line of authority can be traced right from unit head, Assistant Manager, Project Assistant/Senior Assistant/Accountant down to peon.
3. Ensure unity of command, no employee is asked to report more than one supervisory staff at the same time.
4. That there is proper system of internal check in operation.
5. That there is proper system of recording attendance and leave.
6. That there are personal file and Service Book to record history of service of each employee.
7. That the principle of rotation of staff is carried out as per instruction from Head Office at least once in year.
8. To check the service book and leave account of employees to see that they are maintained up to date and that all incidents in an employee's career such as increase in pay, completion of probation, Promotion, annual increment, Leave, Punishments, Suspension Transfers and commendation are recorded there.
9. Report on work assignment to staff and its effectiveness to generate designed result.
10. Report on work rotation.
11. Report on disciplinary actions initiated against staff and present position.
12. Report on leave punctuality in attention, recording of leave account /service book.
13. Report discrepancy if any on leave recorded in service book and payment as per acquaintance register.
14. Report on staff meeting and its effectiveness in generating coordination and unity in working.
15. Report on working condition of staff whether one in conducive to generate an environment to yield better result.



## Chapter 6

### AUDIT REPORT

Audit report is the proper authority to reveal all irregularities and improprieties and is an effective tool to the management to rectify such irregularities so as to prevent its occurrence in future. It is in treatment of result of Audit that the auditorial function demands the highest qualities of understanding balanced judgments and sense of proportion. The auditor must develop an instinct for assessing the important of individual irregularity. The auditor must decide whether to demand irregularities of an individual case or whether to be satisfied with prevention of the error or irregularity for the future. As a general rule undue insistence on trifling error and technical irregularities should be avoided and more time and attention devoted to the investigations of really important and substantial irregularities. The prime object is to avoid recurrence of such irregularities and improprieties in future. But failure to appreciate the significance of what appears to be a trifling irregularity may lead to failure to discover an important fraud or defalcation. Audit may take notice of the cumulative effects of numerous petty errors or irregularities indicating carelessness and inefficiency in the maintenance of accounts or in financial control.

In audit report all observations and objections, suggestions, opinion must be conveyed in courteous and impersonal terms and must be legible and intelligible. It is significant that any statements of criticism, or irregularity in an audit report should be accurate, fair, moderately worded. If a charge cannot be substantiated there should not be even any hint of it.

## **AUDIT FINDINGS AND REPORT.**

After audit the finalized suggestions and opinions shall be broadly classified in to the following heads.

1. General review on working of officers of the unit office.
2. Financial control.
3. Accounts.
4. Upkeeping of records, register, files and other documents.
5. Miscellaneous – returns to Head Office
6. Scheme implementation.
7. Recovery – follow up action.
8. Personal and general administration.
9. Results of audit.

The audit report shall be signed by all the members of the team of audit clearly specifying the name of unit, the period of audit, name of auditor etc.

General review shall contain general observation about the working of the unit office whether it is functioning well in the right track. Financial control begins with review of budget provision of the unit. Whether expenditure strictly adhere to budgetary provision whether the operating of the unit office are carried out in a satisfactory level and in case of adverse deviations reasons thereto and steps initiated for improvement. The income generated is sufficient to meet all expense and the state of finance is stable and no undue delay in implementing schemes. The flow of funds between Head Office to Unit and from Unit to Head Office is properly recorded and statement of reconciliation sent to Head Office every month. There is no wasteful expenditure.

## **ACCOUNTS**

1. All the receipts and vouchers recorded in main cash book day to day basis and no delay there on.
2. Bank reconciliation statement prepared and sent to Head Office every month.
3. Deposit of money in Fixed deposit with banks are properly recorded in register maintained for it and interest is claimed and accounted in books of account, necessary journal entries made.
4. Statement / Schedule of fixed deposit is prepared with provision for which account at the end of the year.
5. Payment of salary and allowance are recorded properly with proper journals.
6. Fixed asset register is maintained and depreciation provided at the end of the year.

## Chapter 7

### MISCELLANEOUS -RETURNS TO HEAD OFFICE

1. The effectiveness of MIS and quality of information provided by there shall be commented in audit report.
2. Delay in submission of return to Head Office like DCB, MSR, Utilisation report, report of suits, report on RR cases , Age wise default statement, report on petition, complaints of the beneficiaries etc.
3. Reconciliation statement of Banks, statement of Fund flow from Head Office to units and vice versa on every month.
4. EPF statement and other statement related to employees etc.
5. In addition to recording of main cash book, ensure that transactions are entered in computer software (tally) on a day to day basis.
6. Trial balance is prepared and sent to Head Office on every month.

## **UP KEEPING OF RECORDS, REGISTER, FILES ETC**

1. Audit report should confirm details as to proper maintenance of all essential documents and files and diligence in upkeep of the same.

2. Audit report shall comment on –

register like personal ledger of loanees and recording of transaction, document register, main cash book, petty cash books, collection day book, cheque issue register, register for receipt of Money Order, Register for recording cheque, DD sent to bank, Inward register, dispatch register, register for movement of cash, register for writing of principal loan amount, waiver of penal interest, Interest, suit register, revenue recovery register, Attendance register, Casual Leave Register, Service Books of employees, etc, petition/complaint register, Register of closed files, Register of LDRF register of micro credit, Register of valuation of landed property Register of legal charges and advocate fees, log books, register under right of information act Acquaintance register etc.

## **SCHEME IMPLEMENTATION**

Audit shall report –

1. Audit shall comment on the effectiveness of loan disbursement and deviation if any shall be specifically mentioned in the report.
2. Delay in implementation of schemes, deviations from Budget provision/annual action plan, slackness to achieve monthly/yearly target both physical and financial term shall be reported.
3. Frequency of issuing of application, conducting of interview, receiving of application and security, acceptance of security, obtaining of legal opinion, the way of getting conformation of genuineness of surety, Time gap between receiving application and disbursing of loans, delay with reasons etc.

## **RECOVERY**

1. Slackness in default follow up action shall be reported.
2. Specific reason for non achieving of pre fixed target.
3. Steps initiated to achieve pre fixed target.
4. Effective use of office vehicle for accelerating repayment collection.
5. Pending Petition suits in courts against recovery and follow up action thereon.
6. Control over Revenue Recovery cases and follow up action with revenue authority.
7. Corrections of DCB.
8. Age wise default statement, initiate of DM/AM to watch and realise long pending default dues.
9. No. of defaulted loanees visited / log book of vehicles.

## **Audit on Core Banking receipts**

Loanees provided with the facility of remittance of repayment collection through any of the designated branch of authorized Banks.

Collection through banks, audit shall see-

1. Loanee opted remitting through bank branches.
2. Collection statement received promptly from Bank with core banking facility on the same day/next day.
3. Ensure collection statement is downloaded and copy is printed for making entries in the respective accounts on a day today basis.
4. See date of remittance in bank is taken as the date for giving credit to the loanee for computation of interest/penal interest.
5. Simultaneous remittance in bank and across the counter are computed promptly in the loanees personal ledger account.
6. Bank statement ensures prompt transfer of fund from units account to Head Office account on a day to day basis.

## Chapter 8

### GLOSSARY USED IN INTERNAL AUDIT

1. Affiliate bidding

Procuring of assets / purchase of stores when multiple bids are tendered by a single person / firm under various names to give the appearance of completion.

2. Backdate

Post a date on a document earlier than the actual creation date for purpose of deception.

3. Backdoor

In computer fraud, unauthorized entry point or weakness discovered by a hacker similar to trapdoor.

4. Bid Rigging

Like affiliate bidding and bid rotation in purchasing any schemes that gives the appearance of competitive bidding but actually not competitive because the participants establish the winner before submitting bids from the contract.

5. Bid Rotation

In purchasing when bidders for contract collude to distribute work among themselves by establishing which among them will win particular bids.

6. Bribery

To offer money in exchange for favorable treatment or to compel or influence some action. Official bribery involves a promise for acting or withholding some official act. Official bribery is corruption and is unlawful.

7. Code of conduct / Code of Ethics

A document adopted by the Corporation which describes the expectations of the behavior of employees.

8. Coerce

To influence action against some ones will, usually by threat.

9. Collateral frauds

fraudulent representing collateral for loans that

(1) does not exist

(2) it is not owned by the applicant/surety

(3) is grossly over valued.

10. Collude

In the context of fraud, to act together for a fraudulent purpose.

11. Conceal / Concealment

To hide from view

12. Conflict of interest

An employee owes a duty to the Corporation to act in the interest of the Corporation and public interest while carrying out the duties. A conflict of interest exists when an employees has some personal kinship, friendship or financial interest in the transaction that may divide the employees interest and put his duty against the interest of the Corporation / Public interest.

13. Conspiracy

Two or more persons come together for the purpose of committing a fraud.

14. Conversion

To exchange for personal gain.

15. Cooking the books

Altering the official accounts to deceive like journal entry fraud.

16. Covert / Covert operation

Hidden or secret operation

17. Cyber crimes

Frauds perpetrated on the internet or through the use of copmputers.

18. Defalcation

Fraud, theft or other dishonest act.

19. Documentary evidence

Written or photographic representation of facts.

20. Dual custody

A method of protecting cash by requiring all cash assets handled by two people, two signatories, two keys, etc



21. Dummy / Shady transactions

Fictitious transactions

22. Embezzlement

Theft of money from the employer by an employee using false entries in accounting records to cover up the crime.

23. Employee Account Fraud

When employees are loanees, making unauthorized adjustments in their accounts.

24. Expense Reports Fraud

Charging unauthorized or fictitious amounts on an expense report is also called padding expense accounts.

25. Exposure

Potential for loss.

26. Factors of Fraud

- a. Opportunity - Control weakness to be able to commit fraud.
- b. Pressure - A problem that cannot be resolved.
- c. Attitude - A propensity to steal or the ability to rationalize fraudulent behavior.

27. False claims

Claim for reimbursement by an employee/loanee for non-existent or inflated expenses/bills etc.

28. Fictitious Refunds Scheme

Preparing false documents of refunds to cover thefts of cash. Also called retail cashiering fraud.

29. Fiduciary duty

The acts necessary to carry out a responsibility to care for assets prudently.

30. Forgery

Creation of false documents or altering existing documents

31. Fraudster

One who commits fraud.

32. Ghost employees  
Fictitious employees on the payroll for drawing extra amount.
33. Hacker  
One who attacks another computer and seeks to gain unauthorized access by breaking computers logical security.
34. Improprieties  
A polite word for frauds and wrong doings.
35. Inflated inventory/Inventory shrinkage.  
Overvaluation of inventory in books of accounts.
36. Influence Pedaling  
The offer by Corporation employer to use his office to influence actions for a private party for personal gain.
37. Informant  
Co-worker of the accused who knows about the crime but not involved.
38. Investigation  
A structured gathering of documentary evidence and testimony to solve a reported fraud.
39. Irregularity  
A polite word for fraud
40. Journal entry fraud  
Making journal entries to fraudulently adjust financial statements.
41. Kick back  
A payment to an employee for favorable treatment
42. Lapping  
Stealing a loanee's remittance and then use it for remittance of previous customer account so as to continue and cover up each such stealing.

43. Life style changes

A possible indicator of theft is the sudden change in lifestyle exhibiting more than usual wealth.

44. Misappropriation - A polite term for fraud.

45. Overt - Open not hidden

46. Padding expense accounts

Adding extra expense item or inflating the value of legitimate expense items to obtain unwarranted reimbursements.

47. Padding over time

Adding extra work to falsify and earn unwarranted pay.

48. Palming

To conceal in the hand.

49. Perpetrator

The person who commits frauds

50. Pilfering

Theft of physical goods like shoplifting.

51. Red flags

Symptoms and indication of fraud.

52. Self approval

An act of authorizing a transaction for one's own benefit or gain.



# KERALA STATE BACKWARD CLASSES DEVELOPMENT CORPORATION LIMITED

( A Government of Kerala Undertaking )

2944/CS/2008/KSBCDC

13.08.2008

## Circular

Sub : Introduction of Internal Audit System.

In compliance of the Mandatory requirement of having an Internal Audit system, the Board of Directors in their 106<sup>th</sup> meeting held on 22.08.2008 resolved to introduce the system of Internal Audit and approved the "Manual of Internal Audit Procedures 2008-09." The Board also resolved to constitute three teams of Internal Audit with Head Quarters Northern region at Kozhikode, Central region at Ernakulam, Southern region at Head Office, Thiruvananthapuram. Each team is to be comprised with two persons, one permanent staff and one CA (inter) / ICWA (inter) assigned on contract basis. At Head Office level the Internal Audit work will be co-ordinated and managed by Internal Audit Officer and the Company Secretary is assigned with the job. The copy of "Manual of Internal Audit procedure," is hereby enclosed for your perusal, compliance and for record. Absence of the system of Internal Audit is a Permanent Audit objection of Comptroller and Auditor General and Statutory Auditors. The success of the system depends on the whole hearted support, and co-operation from you, and you are request to provide the same to the team of audit party on their visit in your Unit Office.

Managing Director

To

The District Managers  
Senior Managers, Head Office  
Manager (A & P) for deploring necessary employees to the audit team.

Regd. Office: T.C. 27/588 (7) & (8), "SENTINEL", 2<sup>nd</sup> Floor, Pattoor, Vanchiyoor P.O  
Thiruvananthapuram - 695 035

Phone: 0471 2577539 , 2577550. Fax: 0471 2577539. E Mail : [ksbcdc@gmail.com](mailto:ksbcdc@gmail.com) Web : [www.ksbcdc.com](http://www.ksbcdc.com)

"Freedom from poverty and backwardness"