

# **INTERNAL AUDIT MANUAL**



**KARNATAKA NEERAVARI NIGM LIMITED**

<b>SL. NO.</b>	<b>CONTENTS</b>	<b>PAGE NO.</b>
1.	<b>GLOSSARY</b>	3-5
	ABBREVIATIONS	6
	<b>SECTION 1: INTRODUCTION</b>	7-8
	Overview	
	Provisions of Companies Act, 2013	
	Purpose of Manual	
	Applicability	
2.	<b>SECTION 2: INTERNAL AUDIT APPROACH</b>	9-10
	Definition of Internal Audit	
	Position & Mission of Internal Audit	
	Financial Compliance	
	Capacity Building	
3.	<b>SECTION 3: INTERNAL AUDIT FUNCTIONING IN KNNL</b>	11-12
	Role of the Head of internal Audit Wing	
	Role of Internal Auditor	
	Audit Committee of the Board	
4.	<b>SECTION 4: PROFESSIONAL STANDARDS</b>	13-14
	Professional Standards of Internal Auditors	
	Audit Quality	
	Computer Assisted Audit Techniques (CAATs)	
	Audit Quality Evaluation	
5.	<b>SECTION 5: PLANNING AN AUDIT</b>	15-17
	Annual Audit Program Planning through Risk assessment	
	Risk Score Chart (RSC)	
	Preparing Annual Audit Programme	
	Communication of Audit Programme	
	Co-ordination with the Head of KNNL	
6.	<b>SECTION 6: INITIATING AN AUDIT</b>	18-21
	Planning Individual Audits	
	Risk Based Assessment	
	Assessment of Internal Controls	
	Types of Controls	
	Tests of Internal Controls	
7.	<b>SECTION 7: CONDUCTING AUDIT</b>	22-36
	Areas to be covered in Internal Audit	
8.	<b>SECTION 8: INTERNAL AUDIT REPORTS</b>	37-45

## GLOSSARY

The definitions/descriptions/meanings of the various terms used in this manual are as follows:

- **Accountant General** means the head of the office of audit and accounts subordinate to the Comptroller and Auditor General of India who keeps the accounts of the State and exercises audit functions on behalf of the Comptroller and Auditor- General of India.
- **Administrative Approval** means the formal approval of the competent authority/Managing Director of the KNNL or its Board or the Government as per the delegated powers.
- **Assembly or Legislature** means Karnataka Legislative Assembly.
- **Audit Camp** means the location specified by the KNNL for conducting audit by the auditor or audit parties.
- **Audit Committee** means Audit Committee of the Board of KNNL set up under the provisions of the Companies Act 2013 and /or the requirement of the Listing Agreement with the Stock Exchange, where the debt securities of the KNNL are listed.
- **Audit Party** means the Composition of audit personnel as framed and approved in the audit program.
- **Audit Programme** means a detailed plan of the audit to be performed, the procedures to be followed in verification, audit personnel involved and estimated time required to complete the audit.
- **Audit Sampling** means the application of audit procedures to less than 100% of the items to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected, in order to form or assist in forming a conclusion.
- **Bank** means any branch of a scheduled Commercial Bank where Karnataka Neeravari Nigam Limited holds a savings/current/Fixed deposit account for its operations.
- **Board / Board of Directors** means Board of Directors of KNNL.
- **Budget Year** means the year commencing on the 1<sup>st</sup> of April of the year and ending on the 31<sup>st</sup> of March of the following year
- **Chief Finance Officer (CFO)**: means Chief Finance Officer as per the Companies Act as nominated / authorized by the Board of KNNL
- **Company, KNNL, Nigam** means Karnataka Neeravari Nigam Ltd. (A Government of Karnataka undertaking) having Registered Office at  
**No.1, 4<sup>th</sup> Floor, Coffee Board Building,  
Dr. B.R. Ambedkar Veedhi,  
BENGALURU – 560 001.**
- **Company Secretary** means Company Secretary of KNNL.
- **Comptroller and Auditor General** means the Comptroller and Auditor General of India appointed under article 148 of the Constitution of India.
- **Competent Authority** means the Government /the Board or any other Committee /persons to whom relevant powers may be delegated by Government/Board / Managing Director of the Company by virtue of the approved delegation of Powers/Government orders directions circulars etc..
- **Constitution** means the Constitution of India.
- **Controlling Officer** means a Head of a Department or other Departmental officer who is entrusted with the responsibility of controlling the incurring of expenditure and or the

collection of revenue by the officers of the Company.

- **Computer Assisted Audit Techniques** means the practice of using computers to automate the audit process, to test computer files and databases during an audit which may normally includes but not limited to using basic office productivity software i.e., spread sheets, word processors and more advanced software packages involving use of statistical analysis to arrive at audit conclusions..
- **Drawing and Disbursing Officer** means a Departmental officer who is entrusted with the responsibility of drawing and disbursing funds of the Company.
- **Estimate Review Committee (ERC)** means Estimated Review Committee of KNNL formed as per the Government order.
- **Finance Department** means the Finance Department of Karnataka Neeravari Nigam Limited
- **Financial Year** means the year beginning on the 1st of April of the year and ending on the 31<sup>st</sup> of March of the following year.
- **Finance, Remuneration and Investors' Grievances Committee (FR&IG)** means Finance, Remuneration and Investors' Grievances Sub-Committee of Board of KNNL
- **Grant** means the amount released by the Government of Karnataka as per budgetary allocation of Government of Karnataka.
- **Government/GOK** means the Government of Karnataka.
- **Head of a Department** means (i) Any authority declared to be such by the competent authority
- **Internal Auditor:** means an auditor appointed as such by the Company to conduct internal audit of the functions and activities of the Company as per provisions of Companies Act 2013 read with relevant Rules.
- **Internal Control** means the procedures adopted by the management of KNNL to assist in achieving management's objective of ensuring the orderly and efficient conduct of its business, including adherence to management policies, to safeguard assets / interest of the Company, systems and procedures laid down by the Company to facilitate detection and prevention of fraud and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.
- **Performance Audit** refers to an independent examination of the programs, functions, operations or the management systems and procedures of the Company to assess whether the Company is achieving economy, efficiency and effectiveness in the employment of available resources to meet the laid down objectives of the Company as laid down in its Memorandum and Articles of Association of the Company.
- **Reserve Bank** means any office or branch of the Banking Department, of the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934).
- **Risk Based Assessment** means the process of (i) Identifying and analyzing potential risks posing threat on the Company's financial aspects as well as achievement of its objectives and (ii) Developing response to address the identified risks and prioritizing audit focus in the risk potential areas.
- **Risk Score Chart** means a score chart for assigning scores and ranks to the offices on the basis of the risk indicators.
- **Sampling** means the process of selecting a subset of the population of the items to draw inferences that represent the entire population.
- **Technical Advisory Committee (TAC)** means a Sub Committee of the Board to render Technical

Advice to the Company as per the scope of the Committee laid down in Government Order .

- **Technical Sub Committee (TSC) means** Technical Sub Committee of KNNL.
- **Value for Money Audit** means an independent assessment of the project, Program, scheme or of an organizations in terms of their goals and objectives and ascertaining the extent to which the expected results have been achieved from the use of available resources of men, money and materials in consonance with the Memorandum and Articles of Association of the Company and directions of the Government from time to time.
- **Working Papers** means those papers which are formally referred to as (i) Audit documents or (ii) Audit file. The documents serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion of the auditor.

## ABBREVIATIONS

<b>AAP</b>	Annual Audit Program
<b>ACM</b>	Audit Committee Meeting
<b>AR</b>	Audit Report
<b>ATR</b>	Action Taken Report
<b>CAAT</b>	Computer Assisted Audit Techniques
<b>CGA</b>	Controller General of Accounts
<b>DDO</b>	Drawing and Disbursing Officer
<b>DO</b>	Division Office
<b>GOK</b>	Government of Karnataka
<b>HO</b>	Head of Office
<b>IAO</b>	Internal Audit Organization
<b>IAD</b>	Internal Audit Department
<b>IAMC</b>	Internal Audit Monitoring Cell
<b>RSC</b>	Risk Score Chart
<b>SR</b>	Schedule of Rates
<b>UC</b>	Utilization Certificate
<b>WRD</b>	Water Resources Department, Government of Karnataka

## SECTION - 1

### INTRODUCTION

#### 1.1. Overview

Karnataka Neeravari Nigam Limited (KNNL) aims to strengthen the Internal Control Systems throughout the Company's operations in its various Zones, Offices, Divisions and Departments operating under the Company. An effective Internal Audit function identifies the potential weaknesses in the internal controls with an aim to strengthen the functioning of the Company and helps in achievement of the objective of the Company. This manual is an attempt to lay down a set of guidelines to ensure effective internal audit procedure for directing and regulating internal audit function in KNNL.

#### 1.2. Provisions of Companies Act, 2013:

As per section 138 of the Companies Act, 2013, and 13 (1) of Companies Accounts) Rules 2014, KNNL being a Company with more than Rs. 50 crore paid up capital and as also the Bonds of the Company are listed on the National Stock Exchange, is required to appoint an internal auditor or a firm of internal Auditors ,

*“who shall either be a chartered accountant or a 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.*

*(2) The Central Government may by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.”*

.....

“.....,

*(2) The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.”*

#### 1.3. Purpose of Manual

This Internal Audit Manual is developed to guide/assist the internal audit wing of the Company / Internal Auditor to provide independent, objective, value-added and advisory services in order to improve the achievement level of the Company. More specifically this manual is intended to provide internal audit wing of Company / Internal Auditor with tools and information for assessing risk in processes and activities, developing an appropriate internal audit work program and planning, performing and reporting on audit engagements.

#### 1.4. It is intended:

- 1.4.1. To act as a handbook for internal Auditors,
- 1.4.2. To identify roles & responsibilities of internal auditors of KNNL,
- 1.4.3. To focus internal audit to assess weakness in internal controls and suggest measures to strengthen the same .

- 1.4.4. To introduce the annual audit program planning through risk based assessment,
- 1.4.5. To standardize reporting and monitoring mechanism to improve audit effectiveness,

**1.5. Applicability :**

This manual is designed for the Internal Audit Wing / Internal Auditor of the Company who are primarily responsible for carrying out the internal audit function throughout the entire gamut of operations and functions of the Company across all locations of the Company, This manual contains guidance of a generic nature and outlines minimum common procedures for conduct of internal audit in the Company. It is not the intention of this manual to limit the independence of the Internal Auditor in the types of independent tests and Audit Procedures to be adopted by them to achieve the objectives of the Internal Audit.



## SECTION -2 Internal Audit Approach

### Definitions of Internal Audit

**The Institute of Chartered Accountants of India (ICAI)** defined, "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."

#### 2.1 Position & Mission of Internal Audit

Internal Audit in the Company should aid the Company in strengthening its management systems, and procedures and internal controls to prevent errors and frauds and deviations from the laid down procedures and processes in consonance and aligned with the overall objectives of the Company. The major scope of internal audit activity is summarized below:

- 2.1.1 Planning of Annual Audit Program
- 2.1.2 Assessment of Internal Controls within the Department
- 2.1.3 Risk Assessment and Sampling to narrow down areas of focus
- 2.1.4 **Reporting on the adequacy and effectiveness of the functioning of the Internal controls and major deviations there from, suggesting improvement to existing systems and procedures.** Tracking compliance to audit findings and preparation of report for the consideration of the Audit Committee.
- 2.1.5 New schemes evaluation with special reference to its economy, efficiency and effectiveness, and whether they are aligned with the objective of the Company.
- 2.1.6 Suggest adequate Capacity Building measures to the Company to strengthen the management processes
- 2.1.7 **Report on significant deviations from the Annual Program of Works of the Company.**

#### 2.2 Financial Compliance

They should also focus on financial compliance while conducting different types of audits as mentioned below:

- 2.2.1 **Transaction audit** includes examination of all relevant vouchers of receipts and expenditure as per the cashbook / bank book to establish the expenditure with reference to the activities and that the authority approving the expenditure has not exceeded its powers.
- 2.2.2 **That expenditure of a personal nature are not charged to the Company.**
- 2.2.3 **Compliance audit** means examination of documents as to whether money spent was legally available for expenditure and sanctioned by the competent authority.
- 2.2.4 That the expenditure incurred are strictly as per the contractual obligations, as per the contract documents and are arising out of compliance with statutory requirement.
- 2.2.5 **Financial Reports Review** includes Trial balance Audit and audit of the Annual financial statements for compliance with the requirement of the Companies Act, and the accounting standards before they re-submitted to the Statutory Auditors of the Company.
- 2.2.6 **Performance Review** : Performance review is an assessment of efficiency and

effectiveness of the program, with due regard to economy and addresses the issues Internal Audit functions on the principle of 3Es:

- **Economy** – means acquiring resources at the lowest cost by observing financial properties keeping in view the objectives of the KNNL.
- **Efficiency** – refers to the way resources are used achieve the objectives of the Company.
- **Effectiveness** –means the extent to which KNNL has achieved its objectives by optimum use of its available resources.

2.2.7 Any one or more types of audits may be applied simultaneously by the Auditor as per requirement.

### **2.3 Capacity Building**

Internal Audit shall also support in building capacities of the accounts and financial management within KNNL. They should facilitate skill transfer by sharing of knowledge on better accounting practices.

## SECTION – 3

### Internal Audit Functioning in KNNL

#### 3.1 Head of Internal Audit Wing:

The Head of Internal Audit Wing (HoIA)/CFO of the Company shall control and supervise the functions of the Internal Audit in KNNL and will ensure effective audit of the accounts of the Company and report to the Managing Director immediately on observing any Fraud, misappropriations and / or any other serious irregularities. Detailed job description of HoIA CFO relating to the Internal Audit is given below:

- 3.1.1 To ensure optimum utilization of services of the appointed internal firm.
- 3.1.2 To review, recommend and obtain approval of the Annual Audit Program from the Managing Director and the Audit Committee.
- 3.1.3 To issue a letter of intimation to the concerned zonal officers before Internal Auditors/Audit teams proceed to the audit camp.
- 3.1.4 To guide, direct and supervise the internal audit assignments on the following principles:
  - The approved audit programs are followed unless deviation is justified and authorized.
  - The audit is conducted with due, professional care.
  - The working papers and evidence adequately support the audit conclusions and provide sufficient data to prepare a meaningful audit report.
  - The audit objectives as planned and defined are substantially achieved.
- 3.1.5 To highlight the major audit objections and misappropriations to the notice of the Managing Director and the Audit Committee.
- 3.1.6 To clear audit reports reflecting minor observations and in case of special audits or any audit report depicting serious nature of loss of Govt. money shall be processed by him and endorsed to the Managing Director and the Audit Committee for approval.
- 3.1.7 To issue the relevant audit reports to proper Zonal offices and Department heads for compliance, get the Compliance examined by the Internal Auditor for their acceptance and report compliance to the Audit Committee
- 3.1.8 To take steps for realization of recoveries suggested by the audit after its due examination and to ensure credit of the recovered amount under appropriate Head of account.
- 3.1.9 To attend Audit Committee Meetings conducted for speedy disposal of audit objections/paras.
- 3.1.10 To review the cases of non-cooperation/non-compliance by the KNNL and take steps to its logical end.
- 3.1.11 To appraise the Management and the Audit Committee on internal audit program and achievements.

#### 3.2 Internal Auditor

Brief job description of the Auditor is given below:

- 3.2.1 To visit all prescribed Zones / Offices / Divisions of KNNL and to carry out internal audit in accordance with the approved audit program.

- 3.2.2 To issue Audit Requisition to the Head of Office / Division / Zone for production of relevant accounting records, registers, files and other documents required to be checked during the course of audit.
- 3.2.3 To conduct physical verification of the cash book and cash balance on the date of commencement of audit. Findings of the physical verification shall be reported in the Internal Audit Report.
- 3.2.4 To obtain a general view of all accounts, records maintained by the KNNL to prepare detailed plan of audit.
- 3.2.5 To evaluate the effectiveness of Internal Control System followed in the KNNL.
- 3.2.6 To review the compliance with the existing Statutory requirement financial rules, regulations, procedures etc. and executive instructions/orders issued by the competent authorities
- 3.2.7 To plan and execute the Internal Audit function in compliance with the requirements of Internal Audit Standards issued by Institute of Chartered Accountants of India issued from time to time as applicable to the nature and functions of KNNL.
- 3.2.8 To conduct a detailed check of accounts of records of the period as given in the approved audit program.
- 3.2.9 To verify whether the Cash book is written in the prescribed form and maintained according to Companies Act and other applicable Statutory Provisions.
- 3.2.10 To verify the correctness of opening balance, totaling of receipt and expenditure shown in the cash book and closing balance for the period of audit.
- 3.2.11 To examine the receipts and disbursements with reference to relevant supporting documents and registers.
- 3.2.12 To identify the areas of wastage of resources, cases of general misuse of funds or properties and misappropriations of financial resources, if any.
- 3.2.13 To verify the reconciliation statements pertaining to bank and advances.
- 3.2.14 To verify whether parking funds in banks etc. beyond authorized period, if any and the funds have been placed with the banks based on the competitive rates of interest.
- 3.2.15 To conduct review of the procurement procedures of goods and services adopted by the KNNL for compliance with the provisions of the KTPP Act and Rules.
- 3.2.16 To conduct performance review of specific scheme objectives and outcomes, if any.
- 3.2.17 To conduct review of the utilization certificates position on different schemes and report the outstanding position as per the prescribed format.
- 3.2.18 To conduct review of the status of past audit reports, Statutory Audit observations and AG audit objections, and other audit findings and its compliances.
- 3.2.19 To conduct review of the budgetary compliances such as timely release of grants/allotments, expenditure as per allotments, re-appropriation if any whether as per rules or not.
- 3.2.20 To prepare draft audit reports in the prescribed format enclosing relevant documents.
- 3.2.21 To submit the draft audit report to the concerned Departmental / Divisional / Zonal Head within 5 days of the date of completion of the audit.
- 3.2.22 To perform any other duties assigned by KNNL.

To Submit final Internal Audit report after discussion the draft reports and after considering further information to the Chief Finance Officer of the Company.

### **3.3 Audit Committee of the Board**

The Audit Committee of the Board of KNNL shall overview the major Internal Auditor's Observations, may direct to drop the observations in consultation with Internal Auditors if the Compliance is satisfactory. If required, the Audit Committee may further direct the concerned to submit further compliance within the specified time limit.

## SECTION – 4 PROFESSIONAL STANDARDS

Professional Standards prescribe the norms, principles and practices, which the Internal Auditors shall adhere to during the course of audit. These standards shall act as a guide to Internal Auditors and overall audit function, thereby ensuring efficiency in operations and professional conduct.

### 4.1. Professional Standards of Internal Auditors

The Management of the Company relies on the Pre-Audit Certificate issued by the Internal Auditors before release of funds to the pay and accounts offices to meet the contract liabilities. The Internal Audit reports submitted by the Internal Auditors are relied upon by the Statutory Auditors while expressing their view on the Financial Statement of the Company. Further, the Management relies on the Internal Audit report while taking decisions and also as a test to ensure that the internal controls laid down by the Company are actually being followed and that they are fool proof. Hence the Internal Auditors are expected to maintain the following professional standards:

- **Objectivity:** Internal Auditors should acknowledge and incorporate all information received from KNNL without withholding any information which may distort the reporting of activities under review. Internal Auditors shall be fair in reporting and any deviations from the laid down systems and procedures. Without fear or favor.
- **Competency:** They should possess thorough knowledge of the internal audit process, applicable rules and orders and object Mandatory Standards on Internal Audit issued by the Institute of Chartered Accountants of India..
- **Confidentiality:** Internal Auditors should not disclose the information acquired during audit to any person other than the Company *unless there is a legal or professional obligation to do so. They should not use the information for any personal gain or in any other manner, which is detrimental to the KNNL or to the Government.*
- **Integrity:** Internal Auditors should comply with ethical principles and code of conduct governing the auditor's professional behavior and responsibilities, which include; Integrity, Objectivity and fairness, Confidentiality and Technical Standards. They would be governed by the ethical requirements as laid down by the Institute of Chartered Accountants of India or the Institute of Cost and management Accountants of India, as the case may be.

### 4.2. Audit Quality

The services rendered by the **Internal Auditors** are expected to be of high quality and the quality can be maintained by following:

- 4.2.1. By deploying professionally qualified personnel for conducting the Audit.
- 4.2.2. Understanding the functioning of the KNNL going to be audited, including the thorough knowledge of the various rules and technical parameters of the functioning of the Company
- 4.2.3. Frequent discussions with the KNNL and its officers at the field and Head Office level
- 4.2.4. Use of standard sampling methods
- 4.2.5. Use of Computer Assisted Audit Techniques (CAATs)
- 4.2.6. By adopting the format of report insisted by the Company .
- 4.2.7. By complying with the standards of Internal Audit issued by the Institute of Chartered Accountants of India.

#### **4.3. Computer Assisted Audit Techniques (CAATs)**

- 4.3.1. Computer Assisted Audit Techniques (CAATs) is the practice of using computers to facilitate and speed up the audit process by using spread sheets, word processors, advance software packages involving use of statistical analysis etc to analyse the data and transactions
- 4.3.2. Usage of CAAT increases economy and efficiency in audit covering huge volume of transactions saves times and focuses on areas of risk.
- 4.3.3. While planning an audit, the auditor may use both combinations of manual as well as computer assisted audit techniques in relation to the situation and context.
- 4.3.4. While deciding use of CAATs, the Internal Auditors may consider the following factors:
- Availability of CAATS with the KNNL;
  - IT infrastructure;
  - Availability of data and data sources;
  - Economy and time constraints.

#### **4.4. Audit Quality Evaluation**

Proper evaluation of the audit reports will lead to improvement of audit quality in due course of time. The following tools may be used for the purpose of audit quality evaluation:

- 4.4.1. While evaluating the quality of Internal Auditor's report, the HoIA shall evaluate the audit functions based on the professional standards, and criteria provided by the Company from time to time and shall involve examination of:
- Audit team's approach to strategic planning
  - Auditing standards and Audit guidelines followed by the audit team
  - Collection of audit evidence Documentation and reporting by the audit team
  - Proper review and supervision mechanism whether followed
  - Proper interactions held with KNNL
  - Any other guidelines and approaches followed by the internal audit team
  - Adherence to this Internal Audit Manual requirements
- 4.4.2 The Officer In charge of the Internal Audit in KNNL shall report and identify opportunities for improvement in the system along with a plan of action.

## SECTION – 5 PLANNING AN AUDIT

This section deals with steps involved in selection of KNNL units annually for the purpose of audit and planning the annual audit program. The existing list of Zonal / Offices may have changed due to closure or opening of new divisions. Hence at the Commencement of each year, Internal Auditor should identify and prepare a list of Auditee divisions in Joint consultation with the CFO/ CAO/CEs

### 5.1. Annual Audit Program Planning through Risk Assessment

- 5.1.1. Since it is not possible to audit all offices of the Company every year, a scientific method should be in place to select offices cautiously for the purpose of audit. Since the objective of conducting internal audit is to ensure effective conduct of activities and achievement of desired goal by the Company, offices shall be selected on the basis of degree of risk parameters.
- 5.1.2. The Chief Finance Officer of KNNL is responsible for selection of offices for audit and prepares an Annual Audit Program of the Company for each financial year in consultation with the Internal Auditor.
- 5.1.3. An approved Annual Audit Program of the Company shall be communicated to all concerned officials and to the Audit Committee by end of February each year.

### 5.2. Risk Score Chart

5.2.1. As discussed above a systematic framework should be in place for selection of offices / Activities as per their risk profile, hence a **Risk Score Chart (RSC)** shall be prepared, which assigns ranks to the offices on the basis of the risk indicators.

5.2.2. An overview of three broad categories of risk parameters is given in Table no.1.

Table No.1: An overview of three broad categories of risk parameters

	<b>Category A: Most Critical</b>	<b>Category B: More Critical</b>	<b>Category C: Critical</b>
<b>Sl. No.</b>	<b>Matters which needs CFO attention immediately and to be reported to the Audit Committee</b>	<b>Matters which needs CFO attention could be cleared at CFO level</b>	<b>Matters which will be brought to the notice of the Head of the Office / Division / Zone and settled at their level</b>
1.	Critical to the objectives of the Company,	Non Compliance of Statutory Provisions	Non maintenance of/ completion of/ updation of Registers
2.	Irrigation Potential Oriented activity	Non Reconciliation of Bank Accounts	Matters which could be verified during the next spell of audit and could be cleared at Divisional level
3.	Public Interest is huge.	Non recovery / Short recovery of Statutory	Recovery of Rent, Electricity etc.
4.	Involves substantial monetary value.	Non remittance / Short remittance of Statutory Deductions	Non compliance of previous Audit observations



5.	Where loss of revenue to the Company and the Government is involved	Non filing of Statutory Returns in time	Non renewal of Security Deposits / Bank Guaranties etc.
6.	Major/Serious Fraud, suspected frauds, serious irregularities/ discrepancies which needs Management	Deviations from the approved Budget / Program of works	Non maintenance of proper Records
7.	Miss-appropriation of funds Lack of proper security to the Assets of the Company		Any other matters which Internal Auditor feels which needs to be brought to the notice of Zonal / Divisional Head
8.	Non compliance to the Statutory Provisions and Internal Control Guidelines of the Company	Non renewal of Security Deposits in time exceeding Rs. 15.00 lakhs.	
9	Lack of Internal Control System/ Internal Guidelines / policies which may lead to major fraud, risk etc.	Long pending Category C observations	
10	Long pending Category B observations	Any other matters on which CFO attention is required	
11	Any other matters which Internal Auditor feels it is most critical		

### 5.3. Preparing Annual Audit Program

#### 5.3.1. Generally, Annual Audit Program contains the following details:

- Name of the Zone/Division Offices selected for Internal audit
- Period of Accounts to be audited
- Number of working days allotted for completion of audit, the number of working days required for conducting audit will be decided by the CFO of the Company in consultation with the internal Auditor taking to consideration the experience from the last audit, quantum of receipt and expenditure to be audited, number of new schemes to be verified etc.
- Once the audit plan is finalized by the Chief Finance Officer, he/she will obtain the approval of the Managing Director. The Audit Committee of the Company should approve the Annual Audit Plan.

#### 5.3.2. Preparing Audit Schedule

As the Annual Audit Program provides only the No. of working days allotted for each Zonal / Division office for carrying out audits, the respective Auditor shall schedule the visit dates to each Office in consultation with concerned PCAO / CAO/CFO

### 5.4. Communication of Audit Program

The Officer In Charge of the Internal Audit at the Registered Office will communicate the Program of audit to the concerned Head of the Office well in advance . A copy of this communication will be provided to the Auditor/Audit Team to take up and complete the audit within the stipulated time. In view of time limit fixed, the head of Office will be requested to extend their cooperation for completion of audit in due time.

The Heads of office will further communicate the Audit program to the Subordinate offices in his jurisdiction and ensure that the Books of Account, other records files are updated and kept ready for verification and provide the Audit all information /clarification/explanations to help the auditor to draw correct conclusions /offer suggestions recommendations.

**5.5. Coordination with the Head of KNNL**

Audit Team Head /In-Charge shall seek cooperation of the Head of Office (HoO)/ Drawing and Disbursing Officer (DDO) and Other Office personnel responsible for maintaining accounts / records for smooth conduct of audit.

The Auditor shall have meeting with the Heads of office before commencing the audit for a particular period .On the closing day the auditor will discuss the major observations which would form a part of his reports. The Heads of office should not wait for the formal audit report to reach him but initiate necessary corrective actions immediately after noticing the same.

## SECTION - 6. INITIATING AN AUDIT

It is the responsibility of Internal Auditor to take necessary steps to initiate the audit as planned in annual audit Program. Before proceeding to conduct the audit they shall ensure that below mentioned steps are taken.

### 6.1. Planning Individual Audits

While planning individual audits, due considerations should be given to the information available in previous audit files of the KNNL. In case of first audit, sufficient time should be given to the audit team to gain knowledge on the working of the Department.

Preliminary planning involves:

**6.1.1. Gaining an understanding of the KNNL functions:** Auditor should have fairly good knowledge of the organization and its operations. This includes understanding the rationale behind establishing the Department, structure of the Department and functions of the Department. Primary source of information about the Department can be obtained through the following documents:

- Previous internal audit plans,
- Previous audit reports,
- AGs inspection reports,
- Budget estimates, revised estimates and actual expenditure,
- Statutory and regulatory requirements applicable to the Company /to be followed by the Company .Rules and regulations framed by the relevant Government of Karnataka Department like Water Resources Department, Public Works Department etc., to the extent they are applicable to KNNL,
- Important directions /circulars /orders issued by State and Central Governments from time to time, as much as they are applicable to the Company.
- Organization charts and flow charts of processes,
- List of accounting registers and records maintained in the Department,
- MIS reports,
- Delegation of the Financial and other administrative powers to the officers of the Company,
- Any other document relevant to audit.

**6.1.2. Understanding Controls:** The Auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal controls in place. After gaining understanding of the organization, auditor should identify key control areas in of the functional area of operation and management of the Company.. The Internal Auditor should examine and evaluate the existence and operation of control systems in relation to the financial statements of the Company as also the various controls laid down various codes, manuals, Internal Audit Standards and government orders.

**6.1.3. Analyzing the earlier audit reports:** Analysis of the earlier audit reports are needed to verify the Department's compliance on the recommendations of the audit. Following issues needs to be verified to understand the environment:

- Errors corrected at the instance of the audit,
  - Remedial recourse or penal actions taken on the recommendation of the audit,
  - Improvements in internal control systems in response to auditor's recommendations,
  - Any special audits conducted that supplements the present audit.
- 6.1.4 Identifying legal compliances to be made:** Auditor should acquaint himself with the applicable legal provisions like adherence to Codes, Rules and various government orders tax laws and other statutory compliances applicable to the Company.
- 6.1.5 Sharing and finalizing the areas of the audit in discussion with the KNNL:** Based on the understanding of KNNL functions and environment, scope of audit will be discussed with the KNNL and areas of audit shall be finalized.
- 6.1.6 Providing an overview of the audit process to the KNNL:** Once the areas of Audit are finalized, the Internal Auditors shall provide an overview of the audit process to be carried out. Requirements, support or any other information or disclosures required from the KNNL may be obtained.

## **6.2 Risk Based Assessment**

Risk assessment is the process of:

- 6.2.1** Identifying and analyzing potential risks posing threat to the existence of the Company, going concern, risks relating to regulatory requirement, risks that may affect the achievements of the objects of the Company, risk of loss of revenues from operations, risks to the assets and properties of the Company .
- 6.2.2** Developing/recommending initiatives to be taken by the Company to mitigate/address the identified risks and prioritizing audit focus in the risk potential areas.
- 6.2.3** After identification of risk areas, Internal Auditors shall finalize the audit plan prioritizing audit scrutiny in potential risk areas to test the sufficiency of internal controls systems and suggest measures to strengthen the internal controls. in those focus areas.

## **6.3 Assessment of Internal Controls**

- 6.3.1.** Internal control mechanism is an integral process operated by an organization, designed to address risks and to provide a reasonable assurance in pursuit of organization's objectives /mission. Following general objectives are achieved by the process of Internal Control:
- Execution of orderly, ethical, economical, efficient and effective operations;
  - Fulfilling of accountability obligations;
  - An effective level of comfort to the stake holders of the Company that the Company is Compliance with applicable laws and regulations and Safeguarding resources against loss, misuse and damage.
  - Safe guarding the Company against loss of revenue.
- 6.3.2** Internal Auditors shall do an assessment of Internal Controls to ensure that an adequate internal control framework is in existence and operating as designed by the Department and errors if any to be located with the operation of established internal controls. Internal Control Assessment will help Internal Auditors to know the following:
- Reliability of records and registers maintained by the Department;
  - That the internal controls facilitate the preparation of error free financial

statements.

- The extent and the depth of the examination and the focus required on the potentially risk areas that needs to be carried out;
- What are the areas where controls are weak and where it is unnecessarily excessive;
- Whether suggestions can be given to improve the control systems.
- Whether the internal controls are sufficient
- Whether the internal controls laid down are actually being followed

#### 6.4 Types of controls

Generally there are two types of internal controls such as:

**6.4.1. Preventive Control:** This type of internal control would prevent a risk from occurring. For example:

- All transactions and events are initiated on proper authorizations and approvals.
- Segregation of functions/duties among the official as far as practicable to prevent risk.
- Control over access to resources and records to prevent unauthorized or improper use of resources.

**6.4.2 Detective Control:** Detective controls are measures that would point to any loss/misdeeds/misappropriation that is taking place in the organization. Any kind of reconciliation (bank reconciliation), analytical reviews, post audit, etc. would fall under this category as they help to detect if something had gone wrong. Some examples of control activities are:

**6.4.3 Verifications:** Transactions or events are verified to ensure correctness and validity. Personal records / service books etc. are periodically verified to ensure their correctness.

**6.4.4 Reconciliations:** This is one of the most commonly used and effective control measures. Reconciliation of one set of records with another including external source records like bank pass books etc an effective level of comfort to the stake holders of the Company are made to ascertain correctness of the transactions or facts.

#### 6.5 Tests of Internal Controls

6.5.1. Through audit procedures the effectiveness of the KNNL's internal control systems are assessed. The Internal Auditors should make a list of internal controls which are in operation in the KNNL. Then Internal Auditors shall perform tests of controls to assess the existence and adequacy of all the internal controls.

6.5.2 The Internal Auditors may initially check the controls by conducting a compliance testing that is, testing to assess compliance with the internal control. Substantive testing is required to obtain evidence to ensure the completeness, accuracy and validity of the data produced by the accounting system.

6.5.3 The Auditor will first check whether there is compliance with the control measure. If it is seen that the control measure is not operating properly, then the auditor would have to go for a substantive testing of the transactions to examine whether non-compliance with the control has resulted in any irregularity.

6.5.4 Substantive testing includes tests of details of classes of transactions, account balances and disclosures.

**6.5.5** The Auditor after assessing controls shall give his recommendation on the operation of the internal controls, whether operation of internal controls is satisfactory or needs improvement or is not in existence. A sample template for assessment of Internal Controls may be collected from the HoIA.

## **SECTION - 7. CONDUCTING AUDIT**

While conducting audit, Internal Auditors are required to visit various field offices located across Districts and villages. Further, field work involves verification of accounts, relevant records and compliance to rules, codes and various orders; however the responsibility of the Internal Auditor is not limited to verification of accounts and procedures but also to give recommendations to improve the financial management system of the KNNL.

- a. Any discrepancies noticed while conducting audit or non-production of any record or non-cooperation by any Officer-In Charge shall be brought to the notice of the Head of office by way of issue of Draft observation. In case there is non-compliance even after intervention of the Head of Office, the matter may be reported to the CFO who shall immediately initiate remedial measures /penal action in consultation with the Head of Administration wing of KNNL.
- b. Whenever any loss of money or stores is detected by means of any misappropriation or fraud, the fact shall be reported promptly through an Interim Report to the Managing Director directly who shall consider the gravity of the case and take appropriate actions.
- c. Internal Auditors are expected to continually update themselves with the various Departmental and other guidelines issued from time to time concerning audit.

## SCOPE OF INTERNAL AUDIT

FORMAT OF INTERNAL AUDIT REPORT IS ENCLOSED AT **ANNEXURE-I.**

### AREAS TO BE COVERED IN INTERNAL AUDIT:

- I. MOBILIZATION OF FUNDS
- II. DEPLOYMENT OF FUNDS
- III. ACCOUNTING AND RECORD KEEPING
- IV. HUMAN RESOURCES MANAGEMENT
- V. GENERAL ADMINISTRATION MATTERS.
- VI. AND STATUTORY COMPLIANCES
- VII. ACTION TAKEN ON PREVIOUS INTERNAL AUDIT OBSERVATIONS
- VIII. LEGAL MATTERS
- IX. PROJECT WORKS
- X. LAND ACQUISITION, REHABILITATION AND RESETTLEMENT
- XI. REALIZATION OF REVENUE
- XII. TRIAL BALANCE
- XIII. OTHERS



**I. MOBILIZATION OF FUNDS:**

**A. Areas to be covered in this section**

1. Share capital
2. Borrowings through bonds and loans

**B. Percentage of Coverage: 100%**

**C. Share capital: Verify and report whether**

- i. The Share Capital does not exceed the Authorized capital as per the Memorandum and Articles of Association of the Company and verify the limit of the Authorized Capital.
- ii. The addition to issued and subscribed capital is backed by proper authorization of the Board.
- iii. The legal requirements as laid down by the companies act, SEBI and other regulatory bodies are met.
- iv. Compliance requirements: Auditor should check that various compliance requirement in relation to share capital and filing of related returns are carried out within the Statutory period.

**D. Borrowings through bonds and loans:**

- i. Verify whether the Company has obtained necessary approval from the Government of Karnataka, Annual General Meeting of the Company, Board of Directors and the Off Budget Borrowing Monitoring Committee, Stock exchange for listing and other required Statutory Authorities for borrowing.
- ii. Verify whether the Company has complied with all the required Statutory Provisions while borrowing the funds including applicable SEBI guidelines and Companies Act.
- iii. Verify whether all the Intermediaries appointed are as per the delegation of power and as per the provisions of KTPP Act and Internal control manual.
- iv. Verify whether the Rate of Interest at which the funds are raised is best competitive prevailing Rate by a process of competitive bidding. Verify whether the Company has complied with all the provisions of Information Memorandum / Loan agreement after the borrowing, and post issue SEBI guidelines in respect of Bonds including complying with the relevant clauses of Trustee agreement
- v. Verify, in case of debentures, bonds, allotment of the securities has been made as per the terms of prospectus / Information Memorandum / applicable statutory provisions.
- vi. Verify whether the money borrowed has been utilized for the purpose for which it has been borrowed.
- vii. To verify and report whether Debt Servicing is done regularly and paid as per the terms of borrowing.
- viii. To verify whether proper compliance reports are submitted to Regulatory Authorities
- ix. To verify and report whether sufficient Asset Cover is available as per the terms of borrowing.
- x. To verify and confirm whether Debt Equity Ratio is within the acceptable norms.
- xi. To issue the Compliance Certificate as per the format enclosed quarterly

## II. DEPLOYMENT OF FUNDS

### A. Areas to be covered in this section

1. Investment of Short-term surplus.
2. Budgetary Control
3. Releases to Project (works).
4. Payment of bills / Other expenses

### B. Percentage of Coverage: 100%

### C. Investment of Short-term surplus.

- i.* To verify and report whether the Company has proper Investment policy in force.
- ii.* To verify and report ( a ) instances current account balances have been carried in excess of 7 days without conversion to interest bearing deposits, ( b ) surplus amount in the current account in excess of Rs. 1.00 crore have been invested in interest bearing deposits as per the Investment policy and Internal Control manual.
- iii.* To verify and report whether the rate of interest received on deposits are competitive rates prevailing at the time of deposit, by inviting quotes.
- iv.* To verify and report whether the interests on deposits have been received fully and are reconciled and proper documents for deduction of tax at source are available and they are reconciled with the entries in the AS-26 statement generated on the TRACE
- v.* To verify and report whether proper Certificates of Deposits in the name of KNNL have been received and the same has been kept in safe custody. Physically verify the existence of the fixed deposit receipts as the date of commencement of audit.
- vi.* To verify and report whether proper Registers have been maintained with regard to Deposits and updated regularly.

### D. Budgetary Control

To verify and comment on the Company's Budgetary Control system and give suggestion for improvement.

### E. Releases to Project Offices for Works and other expenses

- i.* To verify and report whether requisitions by Project Offices are supported by proper certifications and confirmations and are as per the Internal Control guidelines and circulars issued from time to time in this regard.
- ii.* To verify and report whether the proper budgetary provisions are available for release of funds and in case of re-appropriation of budgetary provisions from one head of account to another head of account is approved by competent authority.
- iii.* To verify and report whether necessary approvals from the Competitive authority have been obtained before release of funds.

### F. Payment of bills for others expenses

- i.* To verify and report whether necessary supporting documents are available.
- ii.* To verify and report whether the expenditures are within the budgetary provisions and are approved by competent authority and as per delegation of powers
- iii.* To verify and report whether proper Internal Control procedures are followed.
- iv.* To verify and report whether all deductions are made, remitted and Returns filed as per the Statutory Provisions.

### III. ACCOUNTING AND RECORD KEEPING

#### A. Areas to be covered in this section

1. Petty cash expenses payment procedures
2. Cheque payment procedures
3. Accounting and Record keeping
4. Bank Reconciliation and Confirmations
5. Temporary Advances to Employees outstanding for settlement.

#### B. Percentage of Coverage: 100%

#### C. Petty cash expenses payment procedures :To verify and report whether:

1. Imprest amount drawn are in excess of the limits sanctioned,
2. Proper authorization from the competent authority has been obtained for the expenditure as well for payment.
3. Proper supporting documents are available for the transaction.
4. The expenditure has been accounted properly in the books and all the vouchers are authenticated by the competent authority.
5. The drawee has submitted accounts before drawing next Imprest advance.
6. That expenditure of a personal nature are not charged to the Company.
7. The bills are not split to avoid it from requirement of inviting quotes/tenders.
8. The petty cash book is checked by a competent officer named for the purpose and entries are authenticated. The petty cash book is balanced daily and the opening balance for the next day is physically verified.

#### D. Cheque payment procedures: to verify and report whether:

1. The expenditure is bonafide and is in the interest of the Company.
2. The transaction is supported with proper documentary evidence.
3. The expenditure and the payment are approved by the competent authority and are as per the procedures mentioned in the Internal Control manual and relevant statutory provisions.
4. The statutory deductions (including Service Tax under reverse charge mechanism, wherever applicable ) have been made, remitted and returns have been filed as per the relevant provisions.
5. The transactions have been accounted as per the standard accounting principles in the books of accounts and the vouchers are authenticated by the competent authority.
6. A proper cheques register is maintained and the entries in the register are authenticated by the authorities writing the Cheque and signing the cheque.
7. A record of Cheque books is kept with serial numbers of cheques and unused cheque books are properly accounted for are held in the safe deposit locker, when not in use.

#### E. Accounting and Record keeping: To verify and report whether:

1. Ledger accounts are reviewed periodically at least once in a month and correction entries are passed only with the approval of the authorized signatory/ies by way of approved Journal Vouchers. Entries once passed shall not be deleted in the system. A system of hierarchical authorization for various levels of officers for passing of correction entries has been laid down and actually is being followed.

2. Check whether proper books of accounts as laid down under the Companies Act, 2013 and Rule there under are maintained in the manner required to be maintained as per extent provisions of the said Act and Rules.
3. That proper back up norms to save and preserve the electronic accounting records are laid down and properly being followed.
4. That Physical vouchers, ledgers and other Accounting records are properly preserved in safe locations so as to protect them from destruction etc.
5. Whether proper internal control procedures are in practice to detect fraud, misuse of funds and documents.

**F. Reconciliation and Confirmations: To verify and report whether:**

1. There is a proper system of monthly reconciliation of the various bank accounts and internal unit accounts. Check bank statements for extensions/carry forwards /balancing and accuracy of balance reflected. Check all payments and receipts with the bank statements for each quarter.
2. Check that all items in the reconciliation of the previous period are cleared in accordance with the reconciliation.
3. Check through the items in reconciliation to the next period.
4. Comment upon the adequacy of/arrears in reconciliation.
5. Check whether Stale cheques are reversed and the fact is informed to the bank to stop payment.

**G. Temporary Advances to Employees: To verify and report whether**

1. Temporary advances, festival advance given are properly accounted
2. All the advances are approved by the appropriate authority.
3. All the advances are settled within the stipulated period and accounted for properly.
4. Any advances over and above the stipulated time period may be specifically reported.

**IV. HUMAN RESOURCE MANAGEMENT**

**A. Areas to be covered in this section**

1. Human resources management policy
2. Human resources planning
3. Employee recruitment, training etc.
4. Performance appraisal and control
5. Payment of employee emoluments

**B. Percentage of Coverage: 100%**

**C. Human resources management policy: To verify (review once in a year) and report whether:**

1. The company has well defined and active Human Resources Management Policy for regulation of the employees.
2. The company has documented succession and replacement plan.
3. The company has proper promotion policy.

**D. Human resources planning: To verify and report whether Company has defined and active Human Resources Management policy**

**E. Employee recruitment, training etc. To verify and report whether:**

1. The recruitments are based on man power requirement (only when fresh

recruitments are made).

2. At the time of inviting applications wide publicity is given.
3. No discrimination is done based sex, caste etc., except Roster policy and the reservation policy of the Government.
4. Proper training is provided to employees to update their knowledge to carry out day to day activities of the Company

**F. Performance appraisal and control: To verify and report whether:**

1. Proper performance measurement and appraisal policy is in vogue.
2. Proper feedback is given to the employee after appraisal for improvement
3. Corrective actions are taken based on the appraisal.

**G. Payment of employee emoluments: To verify and report whether:**

1. The employee emoluments are approved by the appropriate authority
2. Employee attendance is regulated properly.
3. Disbursement of employee emoluments like salaries, allowances, gratuity, EPF, advances are as per the relevant provisions and are accounted properly.
4. Tax is deducted at source wherever required as per the provisions of Income Tax Act and is remitted to Central Government A/c within the time limit and necessary Returns have been filed.

**V. GENERAL ADMINISTRATION MATTERS.**

**A. Areas to be covered in this section**

1. Levy and collection of Water rates. Recoveries
2. Purchase of fixed assets and maintenance of registers
3. Purchase of consumables, stores etc.,
4. Disposable of assets
5. Repairs and maintenance
6. Security of assets

**B. Percentage of Coverage: 100%**

**C. Water rates collection: To verify and report whether:**

1. The area under Irrigation for the year has been notified by the Irrigation Consultative Committee (ICC).
2. Demand has been raised for the water let out to the farmers during Khariff and Rabi as per the rates prescribed in the Karnataka Irrigation Act and Rules.
3. There is a system of serving the Demand notices on the Farmers as per the procedure laid down in KNNL
4. Proper Demand & Collection Register is maintained and the same is updated for each irrigation season i.e Khariff and Rabi. The demand raised and actual collection is entered in the register and balanced on a date to day basis. The total arrears of a particular farmer is ascertainable from the register.
5. Uncollected demand over a period of 3 years is intimated to the District Collector/Deputy commissioner/Concerned Assistant Commissioner/Tahasildar to recover the liability in the revenue records of the Government.
6. The Banks in the area /jurisdictional sub registrar of properties have been intimated to insist on a due certificate from the Concerned Irrigation Officers for the purpose of bank lending/disposal or alienating the properties.

7. Periodical returns are submitted to the General manager Administration for further follow up in the matter and appraising the Audit Committee periodically.
8. Water charges collected have been deposited to designated accounts and the accounts are reconciled and confirmations obtained from the Banks.
9. The collections over and above Rs. 5,000/- have been transferred to escrow account maintained at Canara Bank, Bangalore.

**D. Recoveries: To verify and report whether:**

1. Whether there is laid down accountability of officers to prevent mis use, an authorized occupation of the Properties including Land and Buildings.
2. That all such properties are in the possession of the Company in the Revenue records of the Company and proper rent, electricity etc., have been recovered properly.
3. In case of non-recovery details may be provided.
4. Suggest measures for speedy recovery

**E. Purchase of fixed assets and maintenance of registers : To verify and report whether:**

1. Purchases of fixed assets are per the procedures laid down in Internal Control manual and are authorized by the appropriate authority. Wherever required proper procedure laid down as per the KTPP Act and Rules have been followed.
2. Fixed assets are accounted properly in the books of accounts as required in the CARO audit report
3. Fixed asset Register has been maintained properly and updated regularly including Location where such assets are currently placed including such properties lying with third parties
4. Physical verification of assets has been made at least once in a year
5. All the assets are numbered and can be identified.

**F. Purchase of consumables, stores etc.: to verify and report whether:**

1. Purchase of consumables, stores etc., have been purchased for the official use through a centralized basis operated by the GM Admin for Registered Office and concerned heads of offices as per the delegated financial powers by inviting rate contracts /inviting tenders wherever required on the Indents authorized by the concerned department head
2. Purchases are authorized by proper authority as per the delegation of powers and all applicable statutory provisions have been complied with while purchasing.
3. Proper stock registers have been maintained and are updated regularly.
4. Purchases are based on actual requirement and should not be stocked for more than next three months requirement based on the average consumption for the last 2 quarters.
5. Issues are approved by competent authority.
6. The bills for purchase of consumables are checked for quantity and quality by an officer independent of the purchasing authority.
7. The stock of consumable to be reviewed periodically to weed ou slow moving non moving stocks.
8. Stock verification is done regularly.

- G. Disposal of Assets: To verify and report whether:**
1. Disposable assets are declared as scrap as per the prevailing guidelines issued by the Government from time to time before disposal of assets are approved by competent authority
  2. Disposal of assets has been done as per the applicable rules and regulations by online electronic tendering system
  3. Disposal of assets has been accounted properly bifurcating the book value of assets, depreciation provision and the sale price and accounting the Profit/ loss on the sale of assets as per the relevant Accounting Standard.
  4. the Fixed Assets Registers have been updated.
  5. Receipts from the disposal have been accounted properly.
- H. Repairs and maintenance: To verify and report whether:**
1. Whether repairs and maintenance have been done based on actual requirement and is carried on properly after obtaining the approval of the appropriate authority and the same have been certified and confirmed by the concerned officer with regard to quantity and quality of work.
- I. Security of assets: To verify and report whether:**
1. The Company has an inventory of assets.
  2. Proper security arrangements have been made for the protection of the assets of the Company.

**VI. COMPLIANCES TO LISTING AGREEMENT**

**A. Areas to be covered in this section**

Compliance to listing agreement.

**B. Percentage of Coverage: 100%**

**C. Compliance to listing agreement :**

To verify and report whether the Company has complied with all the clauses of Listing agreement entered in to with the National Stock Exchange or other Stock Exchange if any.

**VII. ACTION TAKEN ON PREVIOUS AUDIT OBSERVATIONS**

**A. Areas to be covered in this section**

1. Action taken on previous Internal Audit observations

**B. Percentage of Coverage: 100%**

**C. Action taken on previous Internal Audit observations**

1. To verify and report whether the Company has taken necessary action on previous Internal Audit observations. If not provide the details and provide pendency report as given **Annexure**.

**VIII. LEGAL MATTERS**

**A. Areas to be covered in this section**

1. Wherever decrees are passed in favor of KNNL, necessary action have been taken to execute the decrees and realize the decreed amount.
2. Are there any long pending litigations.
3. Examine whether adverse decisions are appealed in higher courts and wherever the decisions are not contested 'non appeal' decisions have been taken only by the Competent authority. Whether court deposits made have been properly followed up and withdrawn wherever KNNL has won the case



4. To verify and report whether the Company has accounted/disclosed contingent liabilities arising out of litigations properly as laid down in the relevant accounting standard of the Institute of Chartered Accountants of India.

**B. Percentage of Coverage: 100%**

**IX. PROJECT WORKS /CAPITAL EXPENDITURE**

**A. Areas to be covered in this section**

1. Sanction of new work
2. Progress of existing work
3. Procedures followed while providing extension of time
4. Approval of additional financial implication
5. Completion of work
6. Payment of work bills
7. Levy of penalty for slow progress of work
8. Management of security deposits

**B. Percentage of Coverage: 100%**

**C. Sanction of new work: To verify and report whether**

1. Whether administrative approval of the Government has been received before taking up the schemes.
2. Whether approvals of the Board / TSC / TAC / ERC /Managing Director/Chief Engineer/Superintending Engineer/Executive Engineer of KNNL have been taken as per delegated financial powers.
3. All necessary approval of the appropriate authority has been obtained for the new work
4. Whether the work is included in the approved list of program of works.
5. Estimates prepared are as approved by competent authority.
6. Provisions of KTPP Act have been complied with while selecting Vendor/Contractor /Service provider.
7. Agreement with Contractor is as per the Standard tender document as per DTP approved by competent Authority and is not detrimental to the interest of the Company.

**D. Progress of existing work: To verify and report whether**

1. The progress of the work as per the time schedule indicated in the Contract document
2. The progress of the implementation of the project has been reviewed as per contract clause -2 and the delay has been apportioned between the Contractor and the Department ,and the contractor has been penalized as per clause 2(d) of the contract agreement.
3. The work bills are supported with quality control reports issued by the Quality control department and the defects noticed are rectified and so reported before the bill are admitted for payment.

**E. Procedures followed while providing extension of time :To verify and report whether**

1. Procedures required as per tender conditions have been complied with by apportionment of delays while granting extension of time and the same has been properly recorded.
2. Clause 2(d) penalty has been levied as per tender conditions after apportioning



the delays between department and the Contractor.

**F. Approval of additional financial implication: To verify and report whether**

1. Procedures required under Internal control manual, tender conditions, PWD Codal procedures, delegation of power and the provisions of all other applicable rules and regulations have been complied with while granting Extra Financial Implications and the same has been properly recorded.
2. EFIS as a general rule are not to be considered. Only in exceptional cases the reasons for the EFI have been analyzed to prevent recurrence in future.

**G. Completion of work: To verify and report whether**

1. Whether the work as completed as per the scheduled and approved time period.
2. Whether the concerned officers have inspected the work and certified the quality and quantity of work as per the PWD Codal Rules, Internal Control guidelines of the Company.
3. Whether the same has been entered properly in the measurement book.
4. Whether the completion certificate is issued.
5. Whether the Certificate for satisfactory maintenance of work during the maintenance period is available.
6. Whether all the audit recoveries legal case recoveries have been fully deducted from the final bill . Whether the bills have been finalized and the assets are capitalized on completion as per the accounting policy of the Company.

**H. Payment of works bills: To verify and report whether**

1. Works bills have been pre-audited before payment.
2. Necessary entries for the Gross amount and recoveries / deductions have been passed in the books of Accounts properly keeping in view classification of Capital and Revenue expenditure in terms of accounting policies and accounting standards.
3. Statutory Deductions have been made for Royalty, VAT, Service Tax, TDS, Mobilization Advance, FSD, interest if any etc.,
4. Escalation cost/ bills have been prepared / raised as per the terms of Contract, and the relevant and appropriate price index have been adopted as per the provisions of Karnataka Transparency in Public Procurement Act 2000 and subsequent amendments form time to time, and no escalations are allowed for the quantities extended beyond the contractual period for the delays attributed and apportioned to the contractor.
5. The correct base price indices have been adopted
6. Management of security deposits: To verify and report whether;
7. Security Deposits recovered were not refunded in advance of the due date as per tender conditions and without the approval of the competent authority.
8. To ensure that the Security Deposits wherever converted into Fixed Deposits are with the consent of the Contractors only and that they are in the joint names of the EE and the Contractor. Such fixed deposits receipts are in the safe custody of the concerned Executive Engineer In Charge of the work. The fixed deposits are renewed from time to time till they are to be returned to the Contractor.
9. To verify whether the security deposit registers are kept up-to-date, and wherever they are released, under a competent authority's orders properly recorded in

Registers.

10. Whether the release of EMD and Security Deposits is as per the Internal Control guidelines of the Company laid down from time to time, Tender conditions.

**I. Verification OF Records OF DIVISIONAL OFFICE RECORDS:**

1. Verify and report whether Statutory Registers like Minor / Major Work Registers, Contractor's Ledger, Bank Guarantee Register, Time Extension Register, EMD / FSD Registers are maintained, updated and reconciled with Actual and Tally records. Major instances of non reconciliation between the various records shall be reported and their compliance shall be verified and reported during the next audit.

**X. LAND ACQUISITION, REHABILITATION AND RESETTLEMENT and CADA**

**A. Areas to be covered in this section**

1. Remarks on Action taken Report
2. Funds Management
3. Payments and Operation of Bank Account
4. Reconciliation of bank accounts and Accounting of Stale Cheques
5. Process of payment for Land Acquisition with identification of awardees
6. Suggestions:

**B. Percentage of Coverage: 100%**

**C. Action taken report:**

1. To review the compliances on observation rose in previous audit report and to confirm the completeness of actions taken.
2. To highlight the area through an exception to Management where action are yet to be taken.

**D. Funds management:**

1. To verify Account wise detail of receipts from KNNL and that the amounts temporarily surplus for requirement have been converted in to interest bearing deposits.
2. To check accuracy of Interest accrued and credited with respect to fixed deposits.
3. To verify the Account wise detail of payment on account of following are as per the laid down rehabilitation policy
  - Compensation to Project affected Families (PDFs)
  - Rehabilitation and Resettlement
  - Others

**E. Payments and operation of Bank Account**

1. To confirm that all the payment have been made to the project affected people through RTGS to Land **Losers' / Beneficiaries'** Bank Account or through Account Payee Cheques only.
2. To confirm whether adequate arrangement exist for safe custody of un-issued cheques , stale cheques etc. Further verify and comment on the position of un-issued / Stale Cheques and the action taken on the same.
3. To comment on adequacy of the system of entire process of disbursement of compensation, documents management and give suggestions for the improvement in the above.

**F. Reconciliation of bank accounts and Accounting of Stale Cheques**

1. Verify monthly Bank Reconciliation Statement (BRS) of each Bank Account.
2. Check Account wise BRS as at the end of each month covered in the reporting Period.
3. Check pending items in the BRS for more than 3 months.
4. Comment on the adequacy of bank reconciliation and confirm whether reconciliation is done on monthly basis.
5. Confirm and report whether the Stale cheques are reversed and the same has been taken to books properly.
6. Verify Balances in each of Bank Account, Reconciliation Statement, Interest Certificates & TDS Certificate of each Bank Account at the end of each quarter.

**G. Process of payment for Land Acquisition with identification of Awardees**

1. To verify and comment upon the procedures of payment for land acquisition starting with identification awardees and system of physical identification of standing crops, resettlement and rehabilitation assistance, structures and standing trees, for which the payment is made and checked with Assets register of Gram Panchayath.
2. Verify and comment on the procedure for payment of R&R, wherever applicable.
3. Verify whether cheques distributed and amount disbursed on account of cost of compensation of land acquisition have been appropriately accounted for and are backed by the proper documents example, if the payment is made for the standing crops or resettlement and rehabilitation assistance, structures and standing trees, there is adequate documents available for needful validation.
4. To check the land awards with reference to the notified rates.
5. To check the R&R awards with reference to the notified R&R compensations.
6. To confirm that all payments made are supported by proper documentation for land acquisition and Land Awards.
7. Verify and report the instances of -
  - i. Accounting of the cheques issued to PAPs but not encashed;
  - ii. Award declared but PAPs have not accepted the payment,
  - iii. Instances of increased compensation due to arbitration / Lokadalt or court decision, and survey number wise details are linked to the original land compensation
8. Details of funds locked in due to legal issues such as:
  - Land Award amount deposited in courts;
  - Money frozen due to stay by court order;
  - Funds held up due to Arbitration Awards
9. Comment upon the complete procedure being followed by the SLAOs for declaration and disbursement of awards along with its accounting of Rule 28A cases.

**H. Suggestions:**

1. To make suggestion with regard to improving the accounting of the award declaration and its disbursement.
2. To suggest / draw a format for Monthly Progress Report (MPR) for all awards, funds received, payments made and balances for each SLAO Office and its

consolidation at Chief Accounts Officer's office.

3. Court decree cases delays should be paid or appealed immediately.

**XI. REALIZATION OF REVENUE:**

**A. Areas to be covered in this section: Verify and report**

1. Fixation, Demand and collection of water rates from farmers
2. Fixation, Demand and Realization of revenue from Power producers
3. Fixation, Demand and Realization of revenue from Industrial users
4. Fixation, Demand and Realization of revenue from Domestic users
5. Fixation, Demand and Realization of Lease rent on land and buildings

**B. Percentage of Coverage: 100%**

**XII. TRIAL BALANCE AUDIT:**

**A. The Divisional / Field office Trial Balance as at 31st March shall be audited along with the final audit spell with special emphasis on the India Accounting Standards and the requirements of Companies Act, 2013, provisioning, etc. A separate report shall be submitted on the same.**

**XIII. OTHERS:**

**A. Any other issue or subject related to the audit referred by the Managing Director.**

## SECTION - 8 INTERNAL AUDIT REPORTS

- 8.1. No objection shall be booked or reflected in draft audit report without discussing the matter with the concerned Division / Department Head, without issue of initial draft Audit report. Initial observations issued by Internal Auditors shall be complied by the Officers-In Charge of Accounts within 2 days from the date of issue and returned to the Internal Auditors with necessary reply under the signature of the head of the office or in his absence the Officer-in-Charge of Accounts.
- 8.2. In case the reply of the officer is found to be satisfactory, the objection need not be incorporated in the Audit Report. The original initial draft audit observations with reply thereon shall be appended with the Audit Report for reference. The Auditor shall mark dropped with red ink on the initial draft report with date and signature.
- 8.3. If initial draft Audit report is not returned within stipulated time or returned with unsatisfactory replies, the Auditor shall incorporate the objection in the Audit report without waiting for an indefinite period for the reply. The duplicate copy of the memo shall be attached with the Report to substantiate the Audit views.
- 8.4. The Head of the Audit Teams / AAO should check the supporting Audit evidence for each observation that is proposed to be put in the report. He should satisfy himself about the sufficiency and relevance of the evidence. Then He/she should prepare a Draft Audit Report.
- 8.5. The format of the draft report shall be same as final report after approval by the concerned authority. All the applicable quality checks equally holds good for draft report also except that the title of the report shall be "Draft Internal Audit Report".
- 8.6. **Qualities of a good report**  
The Internal Auditors should exercise due professional care to ensure that the internal audit report, inter alia, is:
  - 8.6.1. Clear and not ambiguous
  - 8.6.2. Factual – presents all significant matters with disclosure of material facts
  - 8.6.3. Specific
  - 8.6.4. Concise
  - 8.6.5. Timely and
  - 8.6.6. Complies with generally accepted audit procedures
- 8.7. **Preparing the Internal Audit Report** : Internal Auditor(s) shall use a standard format for reporting audit observations.
- 8.8. The Internal Audit report should be divided into seven parts. A Sample Report format given in **Annexure** . Contents to be covered under each part of the Internal Audit Report is detailed below:

### **Part – 1: General Information**

The Internal Auditors shall mention general information details in the prescribed format which includes following:

- **KNNL Profile:** Name, Address, Head of the KNNL Office, etc.
- **Internal Auditors Profile:** Name and contact details (email and phone no.) of the Internal Audit Team who conducted the audit
- **Audit Profile:** Audit Period or cycle and Duration of Audit.
- **Audit Starting and Completion Date:**

- **Name(s) of the Auditor(s) / Audit Team:**
- **Books of Accounts Maintained and verified:** Provide the details of the Books of Accounts applicable / maintained and verified in the Office Audited.
- **Scope of Internal Audit :** Provide the Details of the Activities / Scope of Internal Audit which are applicable to the Office Audited.

**Part – 2: Previous Audit Compliance**

The Internal Auditors shall mention the following details regarding previous audit status:

- i) **Previous Audit Observations and Compliance:** In this section, the Internal Auditors shall provide the pending status of previous audit observations and compliances. (Internal and AG Audits)
- ii) **Persistent Irregularities:** Internal Auditors shall give details of persistent irregularities which were identified during the past audits but are still not addressed. The Internal Auditors shall identify the cases of non-compliance and list the same under Persistent irregularities.
- iii) **Internal Audit Pendency report shall be as per the format given below:**

**Section –A:**

SI No	Quarter and year	Internal Audit Observation	Compliance given by the Concerned officer	Auditor's remarks for not considering the report	Nature of Risk ie., Category A,B or C	Pending Since

**Section – B. Internal Audit Pendency report Statistics**

S N	Name of the Office	Opening Balance	Year														
			Q1			Q2			Q3			Q4			Total		
			No. of observa tions	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending

**8.9. Part – 3: Pending Position of IRs / Draft Para/Draft Report of C&AG shall be provided as per the format given in Annexure.**

**8.10. Part- 4: Verification of Internal Controls, Observations and suggestions for strengthening the Internal Control Systems:**

In this section, Internal Auditors shall detail out the Weak Internal Control System which are against the Internal Control Guidelines of the Company / Industry Practice and shall suggest the better system as per the format given in Annexure.

**8.11. Part – 5: Provide the Physical verification and Reconciliation Status, Observations as per the Format Given in Annexure.**

**8.12. Part – 6: Current period observations and recommendations: Detailed Observations as per the format given in Annexure shall be provided.** All major irregularities noticed during the course of audit shall be mentioned separately in this section. The Internal Auditors shall also report consequences for non- compliance of the same. Reference evidence and memos shall be attached as annexure.

**8.12.1.** Some examples of major irregularities are mentioned below:

- Fraudulent withdrawal from treasury/ government bank accounts
- Bogus payment and non-payment to beneficiaries
- Misappropriation of cash and stocks
- Any excess payments
- Irregularities in procurement procedure which may or may not have resulted in excess or illegal payments
- Loss in revenue and fee realization
- Irregularities in revenue and fee collections and utilizations
- Any un-authorized expenditure.

**8.12.2. Other Irregularities:** Here Auditor shall report the observations on irregularities noticed while conducting audit. On each item of verification as mentioned below, separate observations will be given on irregularities.

- Physical Verification of Cash, Stock and other items(there will not be any major cash or stock )
- Receipts(Of what)
- Payments
- Contracts
- Stores
- Procurements
- Reconciliations
- Any Other Review Conducted

**8.13. Part – 7: Risk Score Chart: as per the format provided in Annexure, Part 7, shall be provided.**

**8.14. Part-8: General Overall view:**

This section shall be filled by the Internal Auditors after consultation with the KNNL. The Auditor shall provide the list of the areas needing improvement and recommendations for compliance along with a proposed time line as per the Risk Score Chart provided in this manual.

**8.15. Annexure**

The observations given by the Internal Auditors in report need to be supported by relevant audit evidence. These evidences act as a reference to the Audit observations reported by



the Auditor(s). Internal Audit report should ideally contain the following documents as Annexes:

- Draft Initial Audit Report
- Internal Control Assessment checklists, questionnaires
- List of books of accounting records verified
- Statements of closing stock, assets, cash and other valuables with physical verification reports
- Procurement review checklists
- Performance review status
- Budget Vs Expenditure with reason for variance
- Bank Reconciliation statements
- Non – recoupment of advances
- Statement of recovery amounts
- **Annexure** of supporting evidence documents (Any photo copies, photos, CDs etc.)
- Any other Audit evidence which may be considered appropriate by the Internal Auditors

#### 8.16. Submission of Internal Audit Report

The following is the schedule of reporting:

AUDIT SPELL	QUARTER/PERIOD	DEADLINE FOR REPORTING
I	April to June	31 <sup>st</sup> July
II	July to Sep.	15 <sup>th</sup> Oct
III	Oct to Dec.	31 <sup>st</sup> Jan
IV	Jan to Mar	30 <sup>th</sup> Apr
Trial Balance review	As at 31 <sup>st</sup> March	By June 30 <sup>th</sup> of each year

## Annexure

### Format of Internal Audit Report (IAR)

#### Part-1: General Information

1	Name of the Accounting zone	
2	Name of the Zonal office	
3	Name of the Division Office	
4	Audit Period	
5	Audit Starting date and Completion date	
6	Name(s) of the Auditor(s)/Audit Team	
7	Books of Accounts Maintained and verified	a. b. c.
8	Scope of Internal Audit (applicable)	a. b. c. d.

#### Part-2: Pending position of previous internal audit observations:

##### A. Pending observation details:

Sl. No.	Quarter and year	Internal Audit Observation	Compliance given by the Concerned officer	Auditor's remarks for not considering the report	Nature of Risk i.e, Category A,B or C	Pending Since

**B. Pending observation statistics:**

S N	Name of the Office	Opening Balance	Year														
			Q1			Q2			Q3			Q4			Total		
			No. of observa tions	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending	No. of observ ations	Disposed	Pending

**Part-3: Pending position of IRs/Draft para/Draft report of C&AG**

The status of Inspection Reports as at ..... is as follows;

Sl. No.	Particulars	No.
a	No. of Inspection Reports outstanding	
b.	No. of Inspection Paras outstanding	
c.	No. of paras replied	
d	No. of Paras marked for local verification	
e.	Further remarks awaited from AG	
f.	No. of Paras carried forward after conducting adhoc committee meeting	
g	Draft Notes issued during the period	
h	Draft Notes replied during the period	
i	Draft Notes dropped during the period	
j	Draft Paras issued during the period	
k	Draft paras replied during the period	
l	Draft paras dropped during the period	
m	C&AG report for the year -----issued. No of paras -----	
n	C&AG para replied	
o	C&AG report for -----Dropped	
p	No of C&AG paras dropped	
i	Less than 6 months / more than 6 months	

**Part-4: Verification of Internal Controls, Observations and suggestions for strengthening the Internal Control Systems**

Sl. No.	Particulars (Heading)	Existing Internal Control system	Internal Auditor's observations on the adequacy of the control	Suggestions of Internal Auditor if the existing controls are in adequate

**Part-5: Physical verification and Reconciliation of accounts:**

Sl. No.	Particulars	Opening Balance as per Manual book / Tally	Closing Balance as on ... as per Books / Tally of KNNL	Closing balance as on... as per pass book/ Tally or physical verification	Deviations	Internal Auditor's Remarks
1.	Fixed Deposits					

2.	Bank Guarantees				
3	Stamps				
4	Stock and Stores				
5	Bank accounts				

**Part-6: Current period observations and recommendations (if not applicable to kindly mention not applicable)**

Sl. No.	Particulars	Risk category	Records verified	Internal auditor's observations
<b>A</b>	<b>MOBILIZATION OF FUNDS</b>			
1	Share capital			
2	Borrowings through bonds and loans			
<b>B</b>	<b>DEPLOYMENT OF FUNDS</b>			
3	Investment of Short-term surplus.			
4	budgetary Control			
5	Releases to Project (works).			
6	Payment of bills / Other expenses			
<b>C</b>	<b>ACCOUNTING AND RECORD KEEPING</b>			
7	Petty cash expenses payment procedures			
8	Cheque payment procedures			
9	Accounting and Record keeping			
10	Bank Reconciliation, Confirmations and action taken on the BRS items.			
11	Temporary Advances to Employees outstanding for settlement.			
<b>D</b>	<b>HUMAN RESOURCES MANAGEMENT</b>			
12	Human resources management policy			
13	Human resources planning			
14	Employee recruitment, training etc.			
15	Performance appraisal and control			
16	Payment of employee emoluments			
<b>E</b>	<b>GENERAL ADMINISTRATION MATTERS.</b>			
17	Water rates collection			
18	Recoveries			
19	Purchase of fixed assets and maintenance of registers			
20	Purchase of consumables, stores etc.,			
21	Disposal of assets			
22	Repairs and maintenance			
23	Security of assets			
<b>F</b>	<b>COMPLIANCES TO LISTING AGREEMENT</b>			
24	Whether Board of Directors of the Company have met as and when received.			

25	Whether Audit Committee of the Company is active and has met as and when received.			
26	Whether Remuneration / Investor's Grievance Redressal Committee of the Company is active and has met as and when received.			
27	Whether the Company has Complied with terms Listing Agreement and Information Memorandum			
28	Comment on timely servicing of debt			
29	Comment on Professional management of the activities of the Company			
30	Comment on Risk assessment & Minimization Procedure			
31	Any Frauds detected during the Audit			
<b>G</b>	<b>LEGAL MATTERS</b>			
32	Wherever decrees are passed in favor of KNNL, necessary actions have been taken to realize the decreed amount.			
33	Are there any long pending litigation.			
34	Examine whether 'non appeal' cases which have been decreed against the Nigam, have been approved by the competent authority for compliance.			
35	Whether court deposits made have been properly followed up.			
36	To verify and report whether the Company has accounted contingent liabilities arising out of litigations properly.			
<b>H</b>	<b>PROJECT WORKS</b>			
37	Sanction of new work			
38	Progress of existing work			
39	Procedures followed while providing extension of time			
40	Approval of additional financial implication			
41	Completion of work			
42	Payment of work bills			
43	Levy of penalty for slow progress of work			
44	Management of security deposits			
<b>I</b>	<b>LAND ACQUISITION, REHABILITATION AND RESETTLEMENT</b>			
45	Land acquisition and payment of compensation			
46	Maintenance of registers			

47	Reconciliation of bank accounts			
<b>J</b>	<b>REALIZATION OF REVENUE</b>			
48	Fixation of Demand and collection of water rates from farmers			
49	Fixation of Demand and Realization of revenue from Power producers			
50	Fixation of Demand and Realization of revenue from Industrial users			
51	Fixation of Demand and Realization of revenue from Domestic users			
52	Fixation of Demand and Realization of Lease rent on land and buildings			
<b>K</b>	<b>TRIAL BALANCE</b>			
53	The Divisional/Field office Trial Balance as at 31st March shall be audited along with the final audit spell with special emphasis on the India Accounting Standards and the requirements of Companies Act, 2013, provisioning, etc. A separate report shall be submitted on the same.			
54	Status of reconciliation of balances as per subsidiary books/ registers / records like FDs, BGs, FSD, MPWA, waters rates with Tally and physical records			

**Part-7: Risk Score Chart**

Sl. No.	Category A: Most Critical	Category B: Critical	Category C: Less Critical
		Matters which needs CFO attention immediately and to be reported to the Audit Committee	Matters which needs CFO attention & could be cleared at CFO level itself

**Part-8: General overall view**

**Part-9: Annexure** if any

For (INTERNAL AUDITOR)

Name and Designation of the Authorized signatory  
(SEAL OF THE FIRM )

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