



Ref.No.KSFC/HO/IA/CMD/210/2010-11

Date: 17.06.2010

CIRCULAR

Sub: Checklist for conducting Internal Audit

Ref: Circular No.KSFC/HO/IA/CMD/96/2010-11 dt.12.05.2010.

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In order to bring uniformity and to aid audit personnel while conducting Routine Audit, a comprehensive checklist has been prepared and issued in the form of a Circular. The checklist gives an insight in to the areas in which audit is carried-out. It helps the BMS & HODs at HO to understand the audit process and prepare themselves to furnish the required information at the time of Routine Audit.

All are advised to go through this checklist and take note of the contents.

Sd/-

CHAIRMAN & MANAGING DIRECTOR

To,

All the Branch Managers,
HODs at HO,

Copy to:

Zonal Managers	-	for information
General Managers	-	for information
Executive Directors	-	for information



KARNATAKA STATE FINANCIAL CORPORATION
INTERNAL AUDIT, HEAD OFFICE, BANGALORE – 560052.

CHECK LIST:

APPRAISAL AND DISBURSEMENT:

The Internal Audit Department carries out the following types of audit in respect of sanction / disbursement.

- i) Concurrent audit :
 - ii) Routine audit ;
- i) Concurrent audit : The concurrent audit is conducted on a continuous basis after sanction of a loan immediately or before the disbursement takes place. The audit observations are recorded in the note sheet for further compliances before any disbursement takes place. The files will also be referred for final audit before last disbursement. The concurrent audit covered on 100% basis.
 - ii) Routine audit : The routine audit is conducted once in a year in respect of all BO's & HO. The loan files will be audited in respect of both sanctions and disbursement. During the audit thrust will be given on the compliances of BO's for earlier audit observations and further development of each case. The routine audit is done on random basis and thrust will be given on slippage cases.

While conducting both concurrent and routine audit the following aspects should be covered.

At the stage of appraisal:

- i) Review of compliance for earlier audit observations ; - Adherence to the processing time standards and lending policy norms;
- ii) Review of sanction register / LAFD register etc;
- iii) Review of loan application along with the supporting affidavits:
 - a) Photo, signature of loanee;
 - b) Filing of all columns of the loan application ;
 - c) Verification of bio-data net worth details ;
 - d) ID & address proof;
 - e) Bankers details ;



- f) Verification of financial statements duly audited for last 3 years, applicable for existing units/ additional term loan;
 - g) Competitive quotations;
 - h) Prima-facie legal opinion / security documents;
 - i) Verification of memorandum / articles of association (for companies);
 - j) Partnership deed with Form A&C;
 - k) Caste certificate (where required for loans under SC/ST category);
 - l) Whether the LAFD is collected with service tax;
 - m) Confirmation of 1st generation entrepreneur;
 - n) Screening committee proceedings if any;
 - o) Verification of CoS with respect to memorandum ;
- iv) Verification of appraisal memorandum:
- a) Scrutiny of draft appraisal memorandum;
 - b) Background of the promoters / company;
 - c) Analysis of bio data net worth ;
 - d) Analysis of financial statement;
 - e) Inspection and valuation of both primary and collateral ;
 - f) Estimation of land and building and plant and machinery ;
 - g) Security requirements / PG's as per lending policy;
 - h) Market survey;
 - i) Profitability / viability;
 - j) Screening Committee conditions;
 - k) Bankers opinion.
- v) Verification of disbursement:
- a) Compliance of sanctions conditions;
 - b) Execution of legal documents;
 - c) Inspection reports;
 - d) Verification of original bills / invoices;
 - e) Collection of legal documentation charges / upfront fees with service tax etc;
 - f) Preparation of proposal form and releases;
 - g) Compliance of audit observations;
 - h) Review of pending commitment / PIRC meetings;
- vi) Performance of BO/HO:
- a) The audit should comment on the performance of the BO /HO against the targets given;
 - b) The audit should also bring out the good aspects observed during the audit;
 - c) The audit should also suggest positive aspects observed for further implementation;



- vii) Audit report of Appraisal, sanction & disbursement should cover:
- a) Performance of the BO/HO;
 - b) Portfolio analysis;
 - c) General observations and
 - d) Review of individual cases.

RECOVERY AUDIT:

GENERAL:

- i) **Review of earlier audit observations and its compliances;**
- ii) **Analysis of recovery port-folio in respect of the following:**
 - a) General cases;
 - b) Section -29 cases;
 - c) DC(T) cases/ 32G/ SARFAESIA cases ;
 - d) DC cases;
 - e) MR cases;
 - f) OTS / CAR cases;

GENERAL OBSERVATIONS:

- a) Verification of data sheet, final inspection report, legal data sheet;
- b) Whether the file has Xerox copies of loan note sheet/ CoS/Memorandum/ Copy of the loan application with the photo of loanee / PG / CS owner;
- c) Delay in opening of recovery files and reasons;
- d) Review of opening of recovery files and reasons;
- e) Review of statutory and recovery registers;
- f) Filing of cheque bounce cases (whether notice is served / cases is registered);
- g) General recovery follow up;
- h) NPA analysis, age wise analysis, analysis of branch / HO performance;
- i) Follow up of Court cases (PG cases, decree cases execution petition, EP and no follow up where assets are available Court cases to follow up)
- j) Follow up of OTS / CAR cases;
- k) Original suit cases, stay cases (brief facts of the cases relating to legal aspects);
- l) Confirmation of loan balances (at the end of year);
- m) Missing of assets if any;
- n) Status of personal property investigation;
- o) Follow up of DRC meeting decisions;



- p) Renewal of watch ward agreements, EMD collected, other terms and conditions;

Review of recovery file:

iii) **Standard cases:**

- a) Date of opening of recovery file / note sheets;
- b) Visits reports / confirmation of balances / insurance of assets / status of the unit;
- c) Collection of stock statements in respect of WC term loans;
- d) Review of note sheets recordings;
- e) Implementation of DRC decision ;
- f) Reason for default and issue of notices to default;
- g) Reforming / collecting additional LAFD.

iv) **Section – 29 cases:**

- a) Nature of recovery follow up ;
- b) DRC meeting conducted;
- c) Rescheduled / RSR if any done;
- d) Date of issue of SCN (issue of SCN to PG / CS owner to present and correct address);
- e) Date of takeover of the unit (Mahazar drawing in prescribed format, mahazar order approved by competent authority);
- f) Appointment of security guards;
- g) Valuation of missing assets;
- h) 10 days notice to the loanee with a copy of PG / CS;
- i) Valuation of assets / recall of loan balances;
- j) Issue of sale notification / advertisement with a copy to PG/CS holder;
- k) Conduct of sale negotiation meeting;
- l) In case of missing assets filing of police complaint;
- m) Shifting of assets to godown;
- n) Notice to promoter and PG to bring better offer, in case of Section -29 cases with a copy to loanee / PG / CS holder ;
- o) Confirmation of sale;
- p) Invoking of PG;
- q) Action taken for further recovery of balance dues;
- r) PP investigation to be done at this stage;

v) **SARFAESI Act:**

- a) Issue of 60 days notice to the loanee / co-obligant / CS owners under Section 32(2);
- b) 30 days notice for taking possession;



- c) Obtain order for possession of assets (objections if any received should be addressed with in 7 days);
 - d) Taking possession / drawing mahazar;
 - e) Valuation of assets;
 - f) Paper publication for sale with EMD (with 2 paper of vernacular language);
 - g) Reserved price to be mentioned;
 - h) 25% down payment and balance with in days;
 - i) Obtaining possession letter after landing over of assets after collecting full payment;
- vi) **DC cases:**
- a) BO / HO DRC to refer the case to DC;
 - b) Whether the DC certificate is filed in the file;
 - c) SCM under Section 31(1) of KPMR Act;
 - d) Interaction of BO with Special Thasildhar;
 - e) Action taken by Spl.Thasildhar;
 - f) Follow up of Court cases if any;
 - g) Number of public auction / paper advertisements issued;
 - h) Number of auctions held and out come of each auctions;
 - i) PP investigation done and report prepared by BO/ Spl.Thasildhar;
 - j) Bring for attachment if PP Identified;
 - k) Sale of personal property;
 - l) Obtaining NPC from Thasildhar;
- vii) **MR Cases:**
- a) Proceedings of HO/ BO DRC proceedings;
 - b) Compliances to the conditions of DRC;
 - c) Details of Security available;
 - d) Action taken by BO / Special Thasildhar;
 - e) Invoking of PG / identification of PP;
 - f) Paper publication of PP identified;
 - g) Decree if any obtained;
 - h) Issue of NPC by Thasildhars;
 - i) Efforts of BO / HO waiver of loan dues;

The audit reports should cover:

- a) Performance;
- b) Port-folio analysis;
- c) General observations;
- d) Review of general recovery cases;
- e) Review of individual recovery cases pertaining to:–
 - Section 29 cases;
 - DC cases;



- DCT cases;
- MR cases;
- OTS cases;
- Visits to godown / units;
- Report on review of recovery registers.



FINANCE AND ACCOUNTS:

The functions of finance and accounts are broadly classified into –

- i) Financial accounting;
- ii) Loan accounting &
- iii) Administration.

While carrying out the routine audit or financial audit of accounts functions, the following areas to be covered:

i) Financial accounting:

- a) Verification of cash balances, cheques, receipts and payments registers;
- b) Verification of bank reconciliation statements;
- c) Verification of fund transfer;
- d) Verification of trial balances as on a particular date;
- e) Verification of fixed deposits;
- f) Verification of ARPA, ARPA(OTS) a/c;
- g) Verification of suspense account;
- h) Review of expenditure;
- i) Verification of receipts drawn on various heads;
- i) Verification / vouching of payments made;
- k) Verification of employee bills like TA, conveyance and others;
- l) Verification of LAFD/upfront fees / service tax etc;
- m) Verification of other advance accounts ;
- n) Verification of security bias / advertisement bias etc.;
- o) Verification of postal stamps;
- p) Verification of insurance (office equipments / vehicle);
- q) Verification of TDS/service tax collected /remitted;
- r) Verification of journal entries both manual /computer generated entries;
- s) Verification of interest bonds / refinance made;
- t) Verification of cheques / cash deposited to bank;
- u) Verification of statutory records are maintained like cash book, challans, FD applications, TD's challans;



ii) Loan accounting:

- a) Loan account / loan schedules reconciliation ;
- b) Agency account / schedules reconciliation ;
- c) Interest rate verification with reference to the communication of sanction ;
- d) Verification of interest calculation for regular loan / pre-closures/ OTS calculations / DRS/RSR/statements of accounts furnished etc;
- e) DRS / re-schedule/ funding of interest verification ;
- f) Verification of account closed cases;
- g) Verification of loan account related journal entries;
- h) Verification of mismatches computer generated statements;

iii) Administration :

- a) General observation of administration ;
- b) Staff pattern;
- c) Verification of office assets;
- d) Verification of printing and stationery purchases;
- e) Verification of log books of vehicles maintained by BO's/HO;
- f) Verification of purchases above Rs.10000/-;
- g) Sanction of employee advances;
- h) Verification of attendance;
- i) Verification of loan registers;
- j) Verification / comment on the house keeping maintenance of offices;
- k) Verification of destruction of old functions / records;
- l) Renewal of contracts / lease deeds etc. the audit report should contain;
- m) Stationeries
- n) General observations ;
- o) Specific observations and
- p) Compliance of earlier audit observations.

Audit role in finalization of accounts:

The internal audit department after preparation of TB and various schedules at the end of financial year visit all the BO's and certify the various schedules which forms the part of financial statements prepared at the HO. The audit should ensure the same is also certified by the BM before submission to the HO. The schedules along with the annexures should be submitted in duplicate before the deadline is given.



LEGAL AUDIT:

The legal audit is carried out on concurrent and routine basis:

i) Concurrent audit of legal aspects:

The concurrent audit of legal carried out on all the fresh sanctions immediately after the sanction or before the last disbursement or 90 days which ever is early;

ii) Routine audit of legal:

Routine audit of legal is conducted once in a year of all BO's / HO along with along with other areas of audit on random basis.

iii) While conducting the legal audit the following should be ensured:

- a) Scrutiny of tile deeds;
- b) Review that all changes specified in the sanction letters are created;
- c) Review that the charges / hypothecation are registered with RoC and acknowledgement has been produced;
- d) Increase in share capital as specified in the sanction letter should be verified with MoA / AoA;
- e) Pari-passu agreement with any other financial institutions;
- f) If the promoters contribution is in the form of share applications money, which is pending allotment for more than 6 months should be reported;
- g) Review the valuation report of collateral security by chartered engineer / offices of KSFC/KSIIDC etc;
- h) Search report of the legal documents verified legal department officials in the sub-register's office to be reviewed;
- i) Review the company's Board resolution and minutes for authorization to take loan;
- j) Resolution passed at the meeting of share holders is required if the aggregate loan exceeds paid up capital and free reserves of the company as per the requirement of the companies Act 1956;
- k) Adequacy of the stamp duty;
- l) The collection of legal documentation charges.

iv) Legal audit (Routine audit):

- a) Performance / statistics;
- b) General observations;
- c) Review of individual cases;
- d) Review of Court cases;



- e) Review of PG invoked cases;
- f) Review of execution petition files cases.

Special investigation:

The Special investigation will be carried out as and when the files are referred by Board / EC/ Audit committee , MD, ED's and COPU.

The Special investigation may be in respect of –

- a) Sanction and disbursement;
- b) Legal lapses;
- c) Finance and accounts related issues.

The special investigation has to be carried out with the terms and reference of each case.

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