



**Airports
Authority of
India**

Internal Audit Manual

September, 2019

FOREWORD

Significant developments across all spheres of civil aviation sector have resulted in unprecedented growth in air traffic in our country. The growth in traffic coupled with economic liberalization has led to enhanced requirement of airport infrastructure. Development of airport infrastructure within AAI is a continuous process. The upcoming developments in the field of civil aviation in the country have necessitated that a major airport development plans are undertaken. Accordingly, AAI has drawn plans to develop Kolkata, Chennai and 35 non-metro airports in the country as world-class airports. For undertaking all such projects, substantial capital investment is required. Thus it is very important to ensure that we spend our money in the most judicious and cost effective manner. For ensuring the same, apart from other safeguards, there is a need to have a strong internal audit system along with the various guidelines issued by the Government and other agencies such as CAG, CVC, etc. Internal Audit is an aid to the Management to identify the weaknesses and bottlenecks that hinder in achieving the desired results and take appropriate steps to plug them.

The Internal Audit Department of AAI has developed an "Internal Audit Manual". The draft Manual has been discussed at various levels within the organisation; Suggestions received from the user departments have been suitably incorporated. It has been decided that the Internal Audit Manual be implemented within the organisation on trial basis for six months. Thereafter, based on practical experience, any suggestion/feedback received from various departments regarding difficulties, if any, experienced in implementing the manual will be considered and an updated manual will be implemented within the organisation.

I am sure that the information compiled in this manual will be useful not only to the officials associated with Internal Audit but also help all concerned in day-to-day discharge of their duties in accordance with the systems and procedures and also to meet the statutory requirements in this regard.

I compliment the Internal Audit Department for undertaking this work under the overall guidance of Member (Finance) and wish them all the best in achieving their audit objectives in an efficient and effective manner.

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Chapter 1: Introduction

1.1 Purpose of the Manual

This manual describes the internal audit process of Airports Authority of India (AAI) covering various aspects such as audit charter, audit organization structure, objectives of internal audit, code of ethics for Internal Auditors, audit approach, the period to be covered, the scope and extent of checking, documentation, issuance of reports, the follow-up of reports, and the system for ensuring compliance of internal audit observations. Detailed guidelines in respect of all the areas to be covered by internal audit have also been included. The purpose of this manual is to act as a quick reference guide for all internal auditors in relation to the internal audit methodology and to have uniformity in reporting.

1.2 Applicability

The methodologies described in this manual are mandatory. If the Internal Auditor believes that application of the methodology is not appropriate for a particular project, or it will be inefficient to apply the standard methodology, then this should be discussed with the GM of Internal Audit at the headquarters. If he/she at the headquarters waives the requirements to use the standard methodology, this should be documented on the appropriate project file.

1.3 Updates to the Manual

From time to time, there will be necessity to update or revise the manual. Any updates to this manual should be duly approved by the Audit Committee and circulated to all holders of the manual. However checklists in the Annexure I of this manual can be updated with the approval from GM/ Internal Audit at the headquarters, if there are changes in any process or regulations from government.

1.4 Distribution

This manual shall be distributed to Internal Audit Department, RED, APD, GM Finance and HODs of Stations/Airports/Regions and appointed Internal Auditors for their reference.

1.5 Confidentiality

The contents of this manual are confidential. Copies or extracts of this manual may not be provided to any person who does not belong to internal audit department, without prior permission from the AGM (Internal Audit).

Chapter 2: INTERNAL AUDIT DEPARTMENT

2.1 Organization Status

Internal Audit Department should be an independent, appraisal function within the organization for review of the systems of control and quality of performance as a service to the management. Internal Audit will assist the management in exercising overall supervision and control. It will help Airports Authority of India (AAI) to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes.

Internal Audit should be independent of the activities it audits. The independence of Internal Audit is achieved through organizational status and its objectives. The organizational status of the Internal Audit Department should be sufficient to permit the accomplishment of its audit responsibilities. Internal Audit Department should have the support of Senior Management, the Board and the Audit Committee to gain the co-operation of the Auditors and perform the audit free from interference. This is proposed to be achieved by reporting of Internal Audit Department directly to the Audit Committee on Internal Audit matters. All postings in and out of internal audit department will be with the approval of Member (Finance) and Chairman in consultation ED/with GM Finance of Internal Audit. All the appraisal reports of the Internal Audit Staff at the headquarters will be approved by Member ED (IA)/GM (IA) as per the policy of the Authority.

2.2 Audit Charter

Internal Audit will be an independent department functioning under the control of Member (Finance) and reporting to Chairman. The Internal audit set-up will be organized in AAI offices. The in-charge of each internal audit set-up will directly report to the GM of Internal Audit at the headquarters. Internal Auditors shall not assume operational responsibilities. Persons transferred to or temporarily engaged by the Internal Audit department should not be assigned to audit those activities they previously performed until a reasonable period of time has elapsed.

In absence of required manpower strength or in requirement of Technical Expertise, Internal Audits can be outsourced by ED/GM of Internal Audit with approval of Member (Finance). All postings in the Internal Audit department will be based on suitable criteria of education as per section 2.4 of this manual and experience will be given due consideration for scope of work and level of responsibility. Each internal audit set-up should collectively possess the knowledge and skills needed to carry out its audit responsibilities. Internal Audit department will have employees who are qualified in disciplines such as accounting, audit, economics; finance, statistics,

information technology, engineering, taxation, law, environmental affairs, and such other areas as needed to meet the department's audit responsibilities.

Internal Audit set up in the zone and the headquarters will have a separate sitting arrangement and sufficient record room to keep the audit records and files safe and intact along with separate sets of computers and its peripherals and other communication facilities. Following key points should be kept in mind with respect to Audit Charter:

1. The Internal Auditor has full & free access to all departments and all the records. The Internal Auditor is free to review and critically appraise any activity of the Departments/authorities, but his/her review and appraisal does not in any way relieve the Executives and Line supervisors of their responsibilities as internal audit is an advisory function.
2. The usefulness of the internal audit will depend much on the co-operation and working facilities provided to the department.
3. Head of Internal Audit of the zone would have power to split the yearly programme as approved by the headquarters into detailed quarterly programme/ monthly programme. All tours and contingencies will be planned accordingly.
4. Internal Audit department should not be involved in any sort of operational activities which it audits, like tendering, hiring, etc.
5. Due to large size of Airports Authority of India, it will not be possible to audit all the Departments/ Disciplines each year. Therefore, in selection of the Departments/ disciplines for audit, preference should be given to those Departments/disciplines which have been identified as high risk areas by external consultants or which by nature of their activities and as revealed by past experience, are more sensitive. The functions selected for this purpose should include those where lapses and inadequacy of internal control may result into considerable financial losses.

2.3 Roles & Responsibilities of key personnel

The Duties and responsibilities of various functionaries in the internal audit department are as under:

2.3.1 GM Finance/ ED Finance (Internal Audit)/Approving Authority

- To update the Internal Audit Manuals and Internal Audit Department's organization chart from time to time after the same is approved by the Audit Committee.
- To inform the Member (Finance) the findings of all the Internal Audit Reports submitted by internal auditors and compliance given by GM Finance/ ED Finance of Internal Audit and compile the compliance report received from the Regional Office.
- To investigate the matters assigned by the Audit Committee from time to time.

- Finalize the Audit plan for the Authority as a whole and obtain the approval from the Member (Finance).
- Timely submission of MIS and inform Member (Finance)/ Audit Committee of the Board on all the matters pertaining to Internal Audit Department. In case some issues are essential to be looked into, Manager (Internal Audit) can request for exceptional reporting. Arrange to submit the Internal Audit Department work schedule, staffing plan and financial budget annually to Member (Finance)/ Audit Committee for approval. Design appropriate training programme for the executives in internal audit. To arrange for periodical internal audit in accordance with the directions and instructions issued in the guidelines for all .To arrange the special audit program of the units as approved by Member (Finance). To ensure prompt disposal of audit objections both in-house and external internal auditors appointed by the Authority. To update the checklist for audit at regular intervals based on the experience gained during audit.

2.3.2 Assistant General Manager/DGM/Jt.GM/Designated Officer/GM (IA)

They shall be allotted work in accordance with the audit programme. The duties and responsibilities of the subordinates should be communicated to GM of Internal Audit.

2.4 Selection and Recruitment for IA Department

The Authority needs to have a well-defined recruitment and selection policy for the Internal Audit Department. The following features need to be considered for the same:

2.4.1 Qualification and Experience Profile of the Internal Auditor

The qualification and experience requirements of the internal auditors for the department should be well defined. At least 80% of the Internal Audit Department should be professionally qualified and/or experienced from Accounts and Finance Department.

Given below are the required qualifications:

- i) Professionally Qualified Persons Or Chartered Accountant/Cost Accountant Experienced Persons from the Department/MBA Finance Or
- ii) Persons promoted through passing of departmental tests (Graduates or intermediates)
- iii) Persons with technical qualifications having field experience/Designated Officer. Support Staff B.Com or Persons promoted through passing of departmental tests

2.4.2 Age Profile

A conscious effort needs to be made to maintain a proper mix of people in the department. A constant review should be done of the age profile of the internal auditors to ensure that there are adequate numbers of fresh and young people willing to undertake intensive travel.

2.4.3 Discretion to select

The transferring authority i.e. Audit Committee, should involve the ED/GM (Internal Audit) in the selection and transfer of employees in the department. The departments need to provide their best people to the Internal Audit Department to enable it to function effectively. Thus all transfers/selection of people into or out of the Internal Audit Department should be done by Member (Finance) in consultation with GM Finance/ ED Finance of Internal Audit. Further, a policy should be formulated by the Authority to ensure that only people having a "high" rating in the Annual Confidential Report of the previous 2-3 years should be transferred to the Internal Audit Department and a performance review of "Poor" rating should be transferred out of the department to respective field of expertise for efficient functioning of the department.

2.4.4 Rotation

The permanent staff within the Internal Audit Department needs to be rotated on a regular basis as per the policy of the Corporation. However, some of the senior positions in the internal audit department should not be rotated frequently to give the department a sense of stability.

2.5 Engagement of External Firms of Internal Auditors

According to Standard on internal audit (SIA) 16, "Using the work of an expert", When the internal auditor uses the work of an expert, he should satisfy himself about the competence, objectivity and the independence of such expert and consider the impact of such assistance or advice on the overall result of the internal audit engagement, especially in cases where the outside expert is engaged by the senior management or those charged with governance

In order to meet the requirement of internal audit, the services of external audit firms may be obtained. While doing so, the following points may be considered:

- Requirement of experience
- Requirement of adequate manpower
- Existence of office at the place of audit
- Whether travel and stay expenses are to be given separately
- Qualifications required
- Skills and competence
- Financial parameters

2.5.1 Evaluation process

Techno-commercial evaluation criteria

This will be a techno commercial evaluation and accordingly the Technical evaluation shall have 80% weightage and Commercial evaluation shall have 20% weightage. These weightages shall be taken into consideration for arriving at the Successful Firm. The evaluation methodologies vis-a-vis the weightages are as under:

Score will be calculated for all technically qualified Firms using the following formula:

$$S = (T/T \text{ High} \times 80) + (C \text{ Low}/C \times 20)$$

Where:

S = Score of the Firm

T = Technical score of the Firm

T High = Highest Technical score among the Firms C

C Low = Lowest Quote of C among the Firms

C = Quote as provided by the Firm

The Firm securing the highest score becomes the successful Firm

For example – There are three bidders A, B and C.

Technical score will be arrived at by treating the marks of the bidder scoring the highest marks (A) in Technical evaluation as 100. Technical score for other bidders (B, C, etc.) will be computed using the formula: Marks of B / Marks of highest scorer A * 80.

Similarly Commercial Score of all technically cleared bidders will be arrived at by taking the cost quoted by L1 bidder i.e., the lowest quote from all technically qualified bidders (say C) as 100. Marks for other bidders will be calculated using the formula Commercial Score = Cost of L1 bidder / Cost quoted by bidder * 20.

A “Combined score” will be arrived at, taking into account both marks scored through Technical Proposal evaluation and the nominal commercial quotes with a weight age of 80% for the Technical Proposal and 20% for the Financial Proposal as described below.

The combined score is arrived at by adding Technical Score and Commercial Score. The successful bidder will be the one who has the highest Combined Score.

Sr. No	Bidder	Technical Evaluation Marks(T)	Nominal Bid Price (INR)	Technical Score	Commercial Score	Combined Score (Out of 100)
1	A	95	71	$95/95*80=80.0$	$60/71*20=16.9$	$80.0+16.9=96.9$
2	B	85	65	$85/95*80=71.6$	$60/65*20=18.5$	$71.6+18.5=90.1$
3	C	90	60	$90/95*80=75.8$	$60/60*20=20.0$	$75.8+20.0=95.8$

In the above example Bidder A with highest score becomes the successful bidder. In case of more than one vender with equal highest score up to three decimal places, then vender with the highest (among those with the highest equal score), technical marks will be considered for the successful Bidder.

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Chapter 3: Fundamentals of Internal Audit

3.1 Internal Audit

Generally it is felt by the other departments that the role of Internal Audit is only to “find fault”. The role of Internal Auditor goes much beyond that and the increasing demand and needs of the top management has made it an invaluable tool in the hands of management to ensure that the management objectives will be met and all the parts of organisation are working towards it.

The Institute of Chartered Accountants of India defines Internal Audit as, “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.”

Lawrence B Sawyer, the father of Internal Audit defines Internal Audit as, “Independent appraisals of the diverse operations and controls within an organisation to determine whether accepted policies and procedures are followed, established standards are met, resources are used efficiently and economically, planned missions are accomplished effectively and the organisation’s objectives are being achieved.”

The Institute of Internal Auditors (IIA) defines Internal Audit as, “Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governing processes.”

International Organisation of Supreme Audit Institutions (INTOSAI) standard ISSAI 1003 defines Internal Audit as, “an appraisal activity established or provided as a service to an entity. Its functions include among other things, examining, evaluating and monitoring the adequacy of internal control.”

3.2 Characteristics of Internal Audit

From the above definitions we may safely conclude that the Internal Audit is supposed to have the following characters:

- It is an independent function
- It is a consulting function

- It involves examination of various functions of an organisation
- It involves evaluation of various controls
- The appraisal of internal audit is critical
- It is also continuous
- It needs to offer suggestions for improvement
- It needs to add value through its functioning
- It has to strengthen the risk management
- It has to strengthen the corporate governance
- It has to strengthen the internal control system
- It has to ensure that the accepted policies and procedures are followed
- It has to ensure that the established standards are met
- It has to examine whether the resources are used efficiently and economically
- It has to examine whether planned missions will be accomplished effectively
- It has to evaluate whether the organisations' objectives are being achieved

3.3 Need for Internal Audit

As the businesses grow in size and complexity, the management will not be in a position to review all the activities of the organisation. They need a dedicated team of professionals to assist them in the control functions. The increased compliance requirements under various laws and the increased use of technology in the working of an organisation have added to the complexity and have made continuous and critical appraisal of internal controls and corporate governance mechanism imperative.

3.4 Scope of Internal Audit

The scope of internal audit goes beyond the financial audit. It is based on the requirements of the top management and covers almost all the activities of an organisation. While it may not be possible to examine all the aspects by the internal audit team, their capability can be increased by inclusion of representatives from technical departments in the internal audit team. Internal Audit can contribute in the following areas:

- The accuracy and the reliability of financial reports and records
- Achievement of the organisation's goals
- Compliance with various legal requirements
- Adequacy and effectiveness of internal control systems
- Corporate governance issues

- Effective and economic use of resources
- Safeguard of the Authority's assets
- Compliance with rules, manuals, guidelines formulated by the management
- Compliance with standards, guidelines etc laid down by the external agencies relevant to the organisation
- Suggestions for improvement
- Any other issue based on proper analysis of facts and figures for the consideration of management

3.5 Code of conduct/Ethics for Internal Auditors

Since the internal auditor has access to sensitive information and a lot of trust is placed on the internal auditor, it is essential that the internal auditors should follow a code of conduct. According to Standard on Internal Audit (SIA)-2, Basic Principles governing Internal audit, the Internal Auditor should uphold and apply the following principles in the conduct of internal audit:

a) Integrity

The integrity of internal auditors is the first requirement and makes them trustworthy and reliable. Internal Auditors are expected to observe the following rules of conduct relating to integrity:-

- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Shall respect and contribute to the legitimate and ethical objectives of the organization.

b) Objectivity

Internal auditors exhibit impartiality and fairness without any bias in gathering, evaluating, and communicating information about the activity or process being examined. A balanced assessment of all the relevant circumstances is expected from the Internal Auditors. They should not be unduly influenced by their own interests or by others in forming judgements. Internal Auditors are expected to observe following rules of conduct relating to objectivity:-

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes

those activities or relationships that may be in conflict with the interests of the organization.

- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them which, if not disclosed, may distort the reporting of activities under review.

c) Confidentiality

Internal auditors have access to sensitive information which may affect the company if disclosed to competitors and other outsiders. They should not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Internal Auditors are expected to observe the following rules of conduct relating to confidentiality:-

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use the information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

d) Competency

Internal auditors will be practically passing judgement over the work of others. Before they pass any comment they should be competent in the field in which they are examining. They should apply the knowledge, skills, and experience needed in the performance of internal audit services. Internal Auditors are expected to observe following rules of conduct relating to competency:-

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

3.6 Responsibilities of the Internal Auditor

According to Standard on Internal Audit (SIA) 9 - Communication with management, the internal auditor while performing audit should:

- a) Communicate clearly the responsibilities of the internal auditor, and an overview of the planned scope and timing of the audit with the management;
- b) Obtain information relevant to the internal audit from the management;

- c) Provide timely observations arising from the internal audit that are significant and relevant to their responsibility as described in the scope of the engagement to the management; and
- d) Promote effective two-way communication between the internal auditor and the management.

The above will facilitate in the following:

- a) Providing information to the management on areas deserving improvement and better control.
- b) Effective co-ordination with functional management at different levels to best achieves audit objectives, and the objectives of the organization.

However, Internal Auditors have no authority over the functional departments or officers. Their role is only as a staff function and their failure to detect any wrong doing does not absolve any official from his/her functional responsibilities. In other words, primary responsibility for compliance with the applicable guidelines / circulars, establishment of desired adequate internal control systems remains with the concerned officers.

Internal Auditor has full access to all records, properties and personnel relevant to the subject under review. He is free to review and appraise policies, plans, procedures and records and suggest improvements if required with adequate reasoning.

IIA's Core Principles for the Professional Practice of Internal Auditing

For an Internal Audit Department to be considered effective, all these principles should be present and operating effectively:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the programmes
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

3.7 Organisational Independence and Objectivity

The internal audit activity should be free from the activities it audits. There should not be any interference in deciding the scope of its work, in performance of its duties and in communicating the results to the management. To maintain its independence, internal auditor should directly report to the audit committee. However internal auditor will have a reporting relationship with a sufficiently senior executive in the organization (Member Finance) for administrative purposes.

3.8 Capacity Building

Officers who are well versed with the working of the Authority should be posted in the internal audit department. The members of internal audit team should be periodically nominated for the training courses so that they can keep abreast of professional developments. The new joining should be adequately trained and oriented for effective performance in his responsibilities.

Further all orders, clarifications, rules etc should be available with the internal audit department. An up to date Policy file should be maintained in the internal audit department. In fact, instructions should be given to all the departments that any order, clarification, manual, procedure issued by them should be automatically marked to internal audit department

3.9 Types of Audit:

The Internal Audit department may be tasked to carry out many types of examinations/audit as per the requirements of the management. The types of audit are limited only by the skill set of team members of the audit team.

3.9.1 Financial Audit

One of the main functions of the internal auditor is to ensure the accuracy and the reliability of financial information and reports. This audit works as an early warning system to the management. A proper audit of financial books of the organisation will help the auditor team to improve the standard of their work and also to reduce the potential audit observations by the government audit on the annual accounts of the Authority.

This type of audit involves a thorough review of an airport/unit's records and reports, in order to check that all the assets are correctly classified and accounted so that correct depreciation is charged. Similarly it will check to see whether all liabilities are

properly identified and recorded so that the profitability is correctly arrived at, and there is no risk of incorrect reporting.

Further correct assessment of income and expenditure also needs to be ensured so that the profits and the tax payable on the same is correctly arrived at.

Meeting these objectives involves verification of:

- Revenue
- Sales
- Bank deposits
- Bank reconciliation
- Accounts payable
- Accounts receivable
- Disbursements
- Petty cash transactions
- Loans & Advances
- Assets
- Imprest
- Compliance with tax laws

3.9.2 Propriety Audit

During Propriety Audit, the internal auditor will focus on matters which suggest improper expenditure or waste of resources even if such expenditure is covered under rules and no obvious irregularity may appear to have been committed. Propriety Audit “extends beyond the formality of the expenditure to its wisdom, faithfulness and economy”. Thus, the scope of propriety audit extends beyond financial audit to identify cases of improper or in fructuous expenditures which may have been incurred even in conformity with existing rules and regulations.

According to General Financial Rules of Government of India (GFR) the following are the canons of financial propriety:

- The expenditure should not be prima facie more than the occasion demands
- Every officer is expected to exercise the same vigilance in respect of expenditure incurred from the Authority’s money as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- No officer should exercise his powers of sanctioning expenditure to pass an order which will be directly or indirectly to his own advantage.

- The amount of allowances granted to meet expenditure of a particular type should be so regulated that an allowance is not on the whole a source of profit to the recipient.
- The Authority's money should not be utilised for the benefit of a particular person or a section of the people, unless-
 - A claim for the amount could be enforced in a Court of Law or
 - The expenditure is in pursuance of a recognised policy or custom

3.9.3 Works/Project Audit

Works audit will examine all aspects of execution of a project including timeliness so that there is no undue cost and time overruns. This will also see that the terms of contract entered into with the contractor are followed in letter and spirit and all the relevant provisions of DOP, Works Manual and other guidelines are adhered to.

3.9.4 Commercial/Revenue Audit

This audit will examine all aspects of commercial and land directorates. It will cover all aspects from call of tenders, evaluation of tenders and commercial aspects and award of contract. Further implementation contract and realisation of dues and other formalities like collection BG etc would also be covered.

3.9.5 Space Audit

At times disputes arise as to the space handed over and occupied by the parties in the terminal buildings as well as other areas like apron and city side. Sometimes unauthorised use of space by parties without specific allotment may also be noticed. In order to avoid the disputes and possible revenue leakages, a dedicated audit of space can be taken up.

3.9.6 Physical Verification of Assets

In order to safeguard the assets, proper system for accounting, usage and disposal of assets should be there. As a measure of internal control, the physical verification of assets should be carried out at specified intervals as per guidelines in this regard. The Internal Auditor may be asked to conduct a verification of assets with a view to identify any discrepancies in their numbers. Corrective action may be required depending on the discrepancies observed during the course of audit/verification.

3.9.7 Investigation for fraud

At times the management may ask the internal audit department to conduct a focussed, in depth and critical review/audit of certain transactions/activities, if suspicion of fraud or wrong doing exists. Some of the red flags for possible fraud situations are:

- Existence of internal control weaknesses pointed out in earlier audits
- Problems in obtaining appropriate audit evidence
- Failure to maintain complete and required records
- Independent confirmations from third parties revealing differences in the account balance
- Difference in trial balance
- Schedules not tallying with ledger balances
- Bank reconciliations not completed properly
- Rewriting/over writing records maintained manually
- Giving unreasonable justifications
- Getting annoyed at reasonable questions

Whenever a suspicion of fraud arises, Investigation should be started immediately without any loss of time. The suspect employees should be transferred to less sensitive places so that evidence is not tampered with. Speed and discretion both are essential for successful investigation.

While investigating fraud, an internal auditor must–

- Determine the nature of fraud
- Resources required for investigation effectively.
- Skill set required/services of other experts

Investigation should be thorough, focussed and critical. Once the investigation is complete the auditor must make a report. This report must be kept confidential and the distribution of the report should be restricted to the head of internal audit and such other persons as instructed by him. If the investigation is a lengthy and time consuming one, an interim report may be issued.

- The final report must include:
 - ❖ Summarised findings on which conclusion is based
 - ❖ Method of fraud
 - ❖ Names of the persons involved
 - ❖ List of records and transactions involved in the fraud
 - ❖ Specific dates and amount of each wrong doing
 - ❖ Total loss to the Authority

- ❖ Deficiencies observed in the internal controls
- ❖ Recommended corrective action to prevent similar fraud in future.

3.9.8 Information system Audit

Although the increased use of technology has increased the efficiency; it has also increased the complexity and possibilities for new type of frauds. An audit of information system will include:

- Separation of roles
- Password protection
- Security of data
- Safeguard against unauthorised access
- Backup and restore procedures
- Security of assets

3.9.9 Surprise Audit

A surprise audit on focussed issues may be conducted as per the requirements of the management. The coverage of the area will be approved by the Member (Fin) before undertaking the audit. Since it is a surprise audit, no prior intimation will be given to the audit team.

3.10 Internal Controls

Internal Control is broadly defined as a process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance,

The Turnbull Report published in 1999 on corporate governance in UK defines Internal control as, "The policies, processes, tasks, behaviours and other aspects of an organisation that taken together, facilitate the quality of internal and external reporting, which in turn requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from both internal and external sources, ensure compliance with applicable laws, regulations and also internal policies."

Though internal controls are essential for prevention of fraud, their presence alone is not sufficient. Proper implementation and revision of obsolete measures and introduction of new controls as per requirement are required. It is the responsibility of the management to formulate the internal control. The internal auditor will only examine the adequacy or otherwise of control measures and give constructive suggestions for improvement.

3.10.1 Objectives of Internal Control:

An effective and efficient internal control should facilitate:

- Efficient, economic and effective conduct of business
- Safeguarding of assets
- Prevention and Detection of fraud and unlawful/unauthorised acts
- Completeness and accuracy of financial records
- Timely preparation of Financial statements
- Compliance with laws, regulations and policies

3.11 Components of internal control:

There are five components of effective internal control. They are:

1. Control Environment

Control environment comprises of the attitude of the management and employees, the rules, Manuals, regulations, conduct rules, delegation of Powers and requirement of regulatory agencies and oversight organisations etc

2. Risk Assessment

The internal control measures should be commensurate with the risk assessment perceived, then only the economy, efficiency and effectiveness of operations can be ensured.

3. Information and communication

There should be proper communication from the top to the bottom and vice versa. Unless the objective and necessity of the measures are communicated and understood by the employees, they will not be in a position to implement the internal control system effectively.

4. Control activities

To effectively implement the internal control measures the certain activities need to be performed. They are:

(a) Segregation of Duties:

No single department should be responsible for a complete chain of transactions. For example, the requirement for procurement is processed by the Material Management Department, approval is given by the administrative authority and payment is processed by the finance department. If anyone department is allowed to deal with all the activities there is a risk of fraud and

unauthorised activities. Similarly within the finance department itself, the officers processing approvals, payments, accounting and audit will be different.

(b) Authorisation of transactions

All the transactions should be subject to proper authorisation. Purchase order should be placed only after authorisation/approval of administrative authority. Bill should be processed only after acceptance of quality and quantity. Similarly payment should be made only after authorisation as per DOP.

(c) Retention of Records

Proper and complete records should be maintained for the specified duration to provide audit trail and other legal requirements.

(d) Supervision/Monitoring of operations

It is the job of the senior officer to monitor the work done by his subordinates. He has to ensure that the internal control measures are being followed in letter and spirit. The lack of this is the biggest risk against fraud and misappropriation.

(e) Physical Safeguards

Physical safeguards include access control, closed circuit TVs, locks and fixing of assets so that they cannot be removed. Operation of double keys for cash chest etc.

(f) Top level Review

The management reviews the working of internal control system through Key Performance Indicators (KPI) and also through internal audit reports through audit committee.

(g) IT General and application control

IT control includes password management, review of access logs, testing, backup and restoration and data validation and other application controls.

(h) Accounting controls

Accounting controls include Bank Reconciliation statements, various schedules preparation and reconciliation procedures.

(i) Human Resource controls

Human resource controls include verification of qualification, police verification at the time of joining, conduct rules and job rotation etc.,

(5) Monitoring

The working of the internal controls should be monitored on an ongoing basis. Internal audit will act as the eyes and ears of the management through its internal audit function. The management should abreast of the new developments and keep changing or adding new controls for the effective functioning of the system.

Please find Internal Control Questionnaire attached in **Annexure III - Page - 224**

3.12 Audit Materiality

A key issue to be considered by the internal auditor at the time conducting internal audit is that of 'Materiality', i.e. the significance of the issue to the organization. A matter is material if its omission would reasonably influence the decision of an addressee of the auditor's report. International Accounting Standard Board also added that materiality depends on the size of the item or error judged in the particular circumstances of its omissions or misstatements. For example, omission of a contingent liability may be considered as material even though it may not have any effect on the profit of the organisation. Similarly a single mistake having an effect of say, Rs.1, may not be significant or material. But if there are many such instances by design, the sum of all such activities may turn out to be significant.

Thus, the auditor must determine materiality before he makes an audit observation.

3.13 Risk Management and Internal Auditing

According to Standard on Internal Audit (SIA) 13- Enterprise Risk Management, the Enterprise Risk Management process consists of Risk identification, prioritization and reporting, Risk mitigation, Risk monitoring and assurance. Internal audit is a key part of the lifecycle of risk management. The risk management function establishes the policies and procedures, and the assurance phase is accomplished by internal audit.

It is the responsibility of the Board/management to lay down the risk management procedures. The Internal Auditor will only examine whether the risk management is being carried out as it should be and if, it is adequate or not. The internal auditor may also give suggestions for improvement.

3.14 Benefits of Enterprise Risk Management

The following are the benefits of Enterprise risk management (ERM):

- Greater likelihood of achieving the objectives of the organisation;
- Consolidated reporting of disparate risks at board level;
- Improved understanding of the key risks and their wider implications;
- Identification and sharing of cross business risks;
- Greater management focus on the issues that really matter;
- Fewer surprises or crises;
- More focus internally on doing the right things in the right way;
- Increased likelihood of change initiatives being achieved;
- Capability to take on greater risk for greater reward and
- More informed risk-taking and decision-making.

3.15 Audit Decisions aided by Risk Assessment

Risk assessment is helpful in identifying significant audit areas, so that allocation of audit resources to the most important audit areas can be done and to help prioritise key audit decisions such as audit frequency, intensity and timing. According to Standard on Internal Audit (SIA) 13- Enterprise Risk Management, the internal audit plan, which should be reviewed by the audit committee, should be based on risk assessment as well as on issues highlighted by the audit committee and senior management. The risk assessment process should be of a continuous nature so as to identify not only residual or existing risks, but also emerging risks. The risk assessment should be conducted formally at least annually, but more often in complex enterprises. To serve this objective, the internal auditor should design the audit work plan by aligning it with the objectives and risks of the enterprise and concentrate on those issues where assurance is sought by those charged with governance. Some of the decisions that are facilitated by Risk Assessment are:

➤ Audit frequency

In AAI, the frequency of auditing a unit will depend upon the risks inherent in the operations of the unit and shall be reviewed from time to time. The size of the unit and complexities of the unit will play an important role. The previous audit reports may also influence the same. If in a particular unit the internal audit observes more non compliance, the frequency of the audit could be increased.

➤ **Audit Intensity**

Units that are perceived to be more risky should be audited with more intensity. This intensity can be in the form of frequency of audit, sample sizes, seniority of audit staff, skill, etc.

➤ **Audit Timing**

While units with more risk can be taken up first, if the management feels there is a requirement, Surprise audit may also be taken up at such units.

➤ **Size of Audit Department**

The size of the audit department will normally be based on the audit requirements. However at times though there is need, the size of the department may not be commensurate with the requirements. In those cases outsourcing or engagement of outside consultants may be considered.

3.16 Quality Assurance in Internal Audit

According to the Standard on internal Audit (SIA) 7-Quality Assurance in Internal Audit:

Quality assurance can be achieved in Internal Audit by undertaking the following activities:

- Developing an internal audit manual clearly defining the specific role and responsibilities, policies and procedures, documentation requirements, reporting lines and protocols, targets and training requirements for the staff, internal audit performance measures and the indicators.
- Ensuring that the internal audit staff at all levels is appropriately trained and adequately supervised and directed on all assignments.
- Identifying the customers of the internal audit activity.
- Establishing a formal process of feedback from the users of the internal audit services, such as the senior management executives, etc.. The responses received from the users of the internal audit services should also be shared with the appropriate levels of management and those charged with governance.
- Establishing appropriate performance criteria for measuring the performance of the internal audit function. In case the internal audit activity is performed by an external agency, the contract of the engagement should contain a clause for establishment of performance measurement criteria and periodic performance review. These performance measurement criteria should be approved by the management.
- Identify and benchmark with industry/ peer group performance

3.17 Internal Quality Review

The internal quality review framework should be designed with a view to provide reasonable assurance that the internal audit is able to efficiently and effectively achieve its objectives of adding value and strengthening the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system. The internal quality reviews should be undertaken on an ongoing basis.

3.18 Quality of Internal Audit work

According to the Standard on Internal Audit (SIA)- 7, Quality Assurance in Internal Audit, a system for assuring quality in internal audit should provide reasonable assurance that the internal auditors comply with professional Standards, regulatory and legal requirements, so that the reports issued by them are appropriate in the circumstances. A few performance parameters that can be adopted for evaluation are defined below:

- ✓ Audit findings: An important criterion for evaluation is the quality, materiality, relevance, etc. of the audit observations made by the internal auditor in his audit report.
- ✓ Early Warning Signals: The auditor is expected to provide advance information regarding impending risks, which are likely to affect the operations of the organisation.
- ✓ Good Practices Feedback: The Audit need not be only critical. They can also bring out the good practices followed by a particular unit to the attention of the management. This will encourage the units to do better. Further these practices may be included in the internal control framework so that other units may also follow the same.
- ✓ Accuracy of findings: The data reported by the auditor should not have any mistakes or erroneous calculations. All the statements made in the report should have been supported by adequate supporting data, and correct analysis.
- ✓ Quality of Recommendations: Practicality and possibility of implementing the recommendations will affect the quality. Suggestions resulting in cost reduction or cost control and prevention of fraud etc will be useful.
- ✓ Timeliness: Adherence to the audit schedule and timely submission of the reports shall form a very important criterion for evaluation under timeliness.

3.18.1 Measuring the value addition of Internal Audit towards Organizational Performance

While the internal auditor is expected to add value to the organisational performance, it is not easy to measure the value addition. Though some of the quantifiable aspects may be more visible, there are many aspects which are not quantifiable.

a) Quantifiable Aspects

- Savings due to reduction in expenditure
- increase in revenue
- Realisation of Debtors
- Fraud detection

b) Non-quantifiable Aspects

- Change in policies/controls/guidelines on recommendation of Internal Audit.
- Better internal control.
- Better compliance with statutory rules, regulations, systems and procedures.
- Increased confidence and satisfaction of stakeholders.

The value addition as above may be informed by the Internal Audit Department to the management through appropriate reports and the auditors who contributed more may be appreciated in writing by the management. This will encourage the auditors to be more productive.

3.19 Audit Committee

An Audit Committee may be defined as a committee or sub-group of the full Board of Directors formed for overseeing and monitoring, on behalf of the board, the preparation of meaningful financial statements and reports, relying on senior financial management, internal and external auditors

Section 177 of the Companies Act, 2013 and **Rule 6 and 7** of Companies (Meetings of Board and its Powers) Rules, 2014 deals with the Audit Committee.

The Board of directors of every limited company in the following classes of companies shall constitute an Audit Committee:

- (i) all public companies with a **paid up capital of Rs.10 Crores or more;**
- (ii) all public companies having **turnover of Rs.100 Crores or more;**
- (iii) all public companies, having in aggregate, **outstanding loans or borrowings or debentures or deposits exceeding Rs.50 Crores.**

Though Airports Authority of India is not a limited company under the companies act, the Board of AAI has constituted an Audit committee for better corporate governance.

The composition of audit committee:

It will comprise of minimum three directors, majority of whom shall be independent directors.

3.19.1 Functions of the Audit Committee:

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, *inter alia*, include,—

- (i) **The recommendation** for appointment, remuneration and terms of appointment of auditors of the company;
- (ii) **Review and monitor** the auditor's independence and performance, and effectiveness of the audit process;
- (iii) **Examination** of the financial statement and the auditors' report thereon;
- (iv) **Approval** or any subsequent modification of transactions of the company with related parties;
- (v) **Scrutiny** of inter-corporate loans and investments;
- (vi) **Valuation** of undertakings or assets of the company, wherever it is necessary;
- (vii) **Evaluation** of internal financial controls and risk management systems;
- (viii) **Monitoring** the end use of funds raised through public offers and related matters.

3.19.2 Powers of Audit Committee:

The Audit committee shall have the authority –

- To call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board
- To discuss any related issues with the internal and statutory auditors and the management of the company.
- To investigate into any matter in relation to the items or referred to it by the Board
- To obtain professional advice from external sources
- To have full access to the information contained in the records of the company.

3.20 Whistle Blower Policy

DPE guidelines on Corporate Governance (2010) inter-alia provide for a non-mandatory requirement for all Central Public Sector Enterprises to establish a mechanism called “Whistle Blower Policy” for auditors to report to the management instances of unethical behaviour, actual or suspected, fraud or violation of the company’s code of conduct.

This Whistle Blower Policy has been formulated to enable all Auditors to raise concern against any malpractice such as immoral, unethical conduct, fraud, corruption, potential infractions of the Code of Conduct of the Company, breaches of copyright or patent and alike. This policy also outlines the reporting procedure and investigation mechanism to be followed in case an Internal Auditor blows the whistle for any wrong-doing in the Company.

Auditors are given protection in two important areas - confidentiality and against retaliation. It is ensured that Auditors can raise concerns regarding any violation or potential violation easily and free of any fear of retaliation, provided they have raised the concern in good faith. An ombudsperson has been appointed to receive the complaints through email or letters who would investigate the complaints with an investigating team. The final decision would be taken by the Ombudsperson in consultation with the Audit Committee. This Policy would help to draw the Company's attention to unethical, inappropriate or incompetent conduct which has or may have detrimental effects either for the organisation or for those affected by its functions.

However, a disciplinary action against the Whistle Blower which occurs on account of poor job performance or misconduct by the Whistle Blower, and which is independent of any disclosure made by the Whistle Blower, shall not be protected under this policy.

Reporting Mechanisms

Auditors should raise Reportable Matters directly to the Ombudsperson appointed by the Authority to receive all such complaints under this policy and ensure appropriate action. The Auditors can notify a Reportable Matter in one of the following ways:

- By writing an email on email id of the Ombudsperson
- By sending a complaint letter in a sealed envelope marked "Whistle Blower-Private and Confidential" to the Ombudsperson/Whistle Officer.

Fraud Findings:

If an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter through a Registered Post to the competent authority immediately but not later than 2 days of his knowledge of Fraud.

In case of non-reporting a penalty equal to Rs. 10 Lakhs shall be levied on such person and shall be accounted as party to fraud in further investigation.

Chapter 4: Overview of Methodology

4.1 Risk Based Approach

Risk based methodology shall be followed to conduct Internal Audit effectively. First step should be to identify all the risks to develop the risk universe. These risks should be prioritized based on the implications. Second step should be to develop annual audit plan to cover at least all the high risk areas and other medium and low risk areas based on sensitivity. It might not be possible to cover all the medium and low risk areas in a single year. In such case, all efforts should be made to cover all the areas within a span of 3 to 4 years. Once the annual plan is finalized, audit program should be designed, specifying the steps to be performed to execute the audit. The Audit program should be approved by the Internal Audit Coordinator for the respective units. The Audit program should cover but not be restricted to the Appendices provided in this manual for the major areas. Post finalization of audit program, Internal Auditors should carry out Test of Design and Test of Effectiveness of controls as per audit program. All the finding should be reported to the management



4.2 Scope & Prioritization of Areas

The Scope of the proposed internal audit system can be broadly divided into the following:

- 1) Review of Systems
- 2) Review of Transactions
- 3) Review of Sanctions
- 4) Review of Internal Control
- 5) Review of Operations

4.2.1 Review of Systems

A systems' audit is a means for verifying the efficiency of a system by performing an end to end walkthrough for sample transactions of a completely / partially automated process. For instance, in auditing the system of purchases the audit procedure would be to follow the purchase indent from its origin in the indenting department through to the payment of the particular supplier's bill and the corresponding postings in the books of account as well as stock records. Such an audit provides a means of verifying whether the system, laid down in the manuals or by other means is actually being followed or not. It also provides a better understanding of the system and helps to disclose errors, incompleteness or irregularities in the systems of accounting or in the system of internal check. It also does not mean that manuals cannot be updated. The Internal Audit department in consultation with the concerned department can advise in updation of manuals and systems.

4.2.2 Review of Transactions

An audit of transaction involves an examination of supporting documents and accuracy of the transactions. The primary purpose of an audit of transactions is to verify the effectiveness of internal control. The objectives of such an audit are listed below:-

- 1) Transactions carried out are valid.
- 2) Recording of the transactions is proper.
- 3) Transactions are properly verified before recording.
- 4) Transactions are properly classified and recorded in the correct Accounts Head.
- 5) Transactions are recorded without delay.
- 6) Transactions are properly included in the records and correctly summarized.

4.2.3 Review of Sanctions

Sanctions consist of:

- a) Administrative Sanction
- b) Financial Sanction
- c) Technical Sanction

An audit of sanctions means verifying the following:

- 1) All transactions are covered by sanctions.

- 2) The Authority sanctioning is competent to do so by virtue of the powers delegated to her/him by the provisions of any rules, regulations or orders framed or passed by the management.
- 3) The sanction accorded must be definite and must need no reference to the sanctioning authority itself or to any higher authority.

4.2.4 Review of Internal Control

A review of the internal control is a means by which the auditor can determine areas where possibilities for error or fraud exist in the system as a whole. It would be an appraisal into the organization to determine whether the management information is distributed to the appropriate level of management so that necessary action is taken by the right man at the right time. The Audit must ensure that no one person should be in a position to control all phases of processing to minimise the chances of error or defalcation. As far as practicable the work of an individual should be independent of, or checked by, the work of others. Similarly, procedures must also be checked so as to ensure that one aspect of the control is automatically checked by the subsequent step. The Audit must ensure that independent controls by the management are functioning satisfactorily.

4.2.5 Review of Operations

A review of operations means audit of day to day functioning of any of the department of the Airports Authority of India. It would be a check on efficiency of the process followed in the department and an assessment of the process design and control gaps. Audit must ensure that the documented procedures have been updated from time to time, based on any changes in technology, environment or regulatory changes.

4.3 Annual Audit Plan

The annual plan should be drafted by the GM (Finance/Internal Audit) for presentation to the Executive Director (Internal Audit) and the same should be duly approved by the Member (Finance). Any changes to the plan must be explained and brought to the notice of Member (Finance).

This plan should be used as a basis for reporting the status of audit progress to the Executive Director (Internal Audit). Audit may be extended to any area of the Authority's operations on need basis. Following sources should be referred to, while preparing the Annual Audit plan:

Source	Key Risk Areas
Policy & Procedures	✓ Areas identified on the basis of risk priority
Previous internal audit plans	✓ High risk areas from previous years ✓ Issues held over from previous years
Management feedback	✓ Specific issues of concern that different process owners may have identified either formally or informally in the past ✓ Areas of known control problems
Minutes of the Audit Committee	✓ Matters of concern to the Board and senior management ✓ New business initiatives or operational changes that should be taken into account ✓ Emerging legislative, operational or financial changes that should be considered in the plan
Corporate plan	✓ Areas of significant change ✓ Emerging areas
Annual report and recent management reports	✓ Matters of concern to the Members

4.4 Auditing in the IT Environment

The Auditor should obtain the knowledge of the IT environment and assess whether it influences the assessment of the inherent and control risks. The nature of the risks and internal control includes the following:

Lack of transactions trails: where a complex application system performs a large number of processing steps, errors embedded in an application's program logic may be difficult to detect on a timely basis by manual (user) procedures.

Lack of segregation of the functions: Many control procedure that would ordinarily be performed by separate individuals in manual systems may become concentrated in an IT environment. Thus, an individual who has access to the computer programs, processing or data may be in a position to perform the incompatible functions.

The internal auditor should review whether the information technology system in the entity considers the confidentiality, effectiveness, integrity, availability, compliance and validity of data and information processed. The internal auditor should also review the effectiveness and safeguarding of IT resources, including – people, applications, facilities and data

4.5 Risk Rating Criteria

All the observations should be rated as critical, major or moderate based on the matrix defined below:

Risk Factors	Critical	Major	Moderate
Financial	Serious Financial irregularities: which results in financial and revenue loss to the Corporation i.e. embezzlement and excessive use of financial power and expenditure over and above budgeted limits etc.	Financial irregularities of Normal nature: Diversion of funds and irregularities which cause temporary loss to the Corporation	Procedural irregularities which are the result of non-compliance with the prescribed procedures
Compliance			
Legal & Regulatory	Serious failure to comply with legal/regulatory requirements	NA	Other than Critical
Serious Failure = High Revenue or Cost Impact; Impact on Brand/ Reputation; any legal proceedings / penalty.			
Operational (Impact to be linked with the above financial limits)			
Policy definition and / or documentation	Repetitive issue or high fraud vulnerability or involves gross negligence of policy	Policy not defined and / or documented or Policy documented with significant control gaps;	Policy defined and documented but with minor procedural / control gaps

<p>/ process</p> <p>Compliance with the defined policies / process</p>	<p>Undocumented Process being followed</p> <p>Non-compliance with critical policies / processes i.e. those impacting revenues, costs, regulatory compliance, customer dissatisfaction, etc.</p>	<p>Non-compliance with non-critical policies / processes but which have a financial impact</p>
<p>Systems and Tools</p>	<p>System enhanced or implemented without major functionality or with serious flaws Loss of systems leading to severe / significant business disruption OR threat of external / internal intrusion of IT systems / network impacting non-critical components</p>	<p>Improvements to system functionalities Loss of systems leading to insignificant business disruption</p>
<p>People - Structure / Competency & Skill / Adequacy</p>	<p>Organization Structure not appropriately defined for efficient functioning. The people do not have appropriate skills/competencies to perform the required task. Adequacy of resources</p>	<p>NA</p>

4.6 Informing Management

GM Finance/ED (IA) or his / her team members should give prior notice of impending audits (except in the case of fraud investigation, some special investigations and audits) to the Head of the Department/ Division and the Head of Finance & Accounts. Scope of Audit should be sent out at least two weeks prior to the suggested commencement date. This will give an opportunity to the management to consider issues which they would like to be included in the audit review and also to give proper consideration to the purpose of the audit as broadly explained in the charter.

On arrival at the Auditable Division/ Department, the In-charge of the Internal Audit Party shall call on the Head of the Division/ Department and the Head of the Finance & Accounts to apprise them of the procedure which shall be followed by the Internal Audit Party and request them to issue instructions to the concerned officers and employees under their control to provide the information/records within 24 hours of the requisition by the Internal Audit Party.

4.7 Sampling

The detailed review of more than a fraction of a large company's transactions becomes very costly and the time involved is so great that many of the benefits of audit are lost by the time the work is completed. It has therefore become necessary to rely to a far greater extent on sampling.

Standards on Internal Audit 5, issued by the Institute of Chartered Accountants of India defines audit sampling as follows

"Audit sampling" means the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the internal auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form a conclusion concerning the population.'

Below we have discussed the various element of sampling

4.7.1 Statistical vs. Non-statistical Approach

The Internal Auditor should apply his/her professional judgement in using statistical or non-statistical sampling approach. Preferentially statistical sampling should be used, however in certain cases of tests of controls where on the basis of analysis of the nature and cause of errors, if the Internal Auditors feel non-statistical sampling would be more useful, same should be applied. In such cases, reasons for using non-statistical approach should be appropriately documented.

For statistical approach, determination of how much sampling is needed is determined through statistical sampling techniques by which the degree of risk involved, and the reliability of the sample can be readily established. This provides a far more objective approach than is possible through intuitive sampling. It aids in arriving at an informed opinion of the whole transactions on the basis of mathematical concepts. Specification of the precision and reliability necessary in a given test is an auditing function and the auditor must exercise his own judgement in this regard. It does not reduce the use of judgement by the auditor but permits statistical measurement relating to sampling that is not otherwise possible with any other method.

4.7.2 Sample Size

Standards on Internal Audit 5, discuss certain factors which influence sample size in Test of Controls and Test of Details.

On the basis of the above sample size, reference sheet giving the size and basis of samples to be audited in each audit area should be suitably evolved. Each of the audit procedures have the relevant column for sample size reference and would have to be co-related to the reference sheet to determine the size and basis of the sample to be selected.

We have not listed the sample details in the audit procedures in order to maintain the required element of surprise and secrecy necessary for effective internal audit. Besides, the size and basis of sample selection would be suitably modified by the head of internal audit department on the basis of the extent and depth of checking required. The sample size reference sheet would thus be suitably amended and released immediately preceding the commencement of the audit. We recommend that the sample size reference sheet be accordingly modified / altered at least once a year and by the Internal Audit Department.

4.7.3 Sample Selection

The sample can be selected by any of the following methods:

- 1) Random number selection:** The items included in the sample must be drawn completely at random from the entire transactions so that each item or transactions has an equal or known chance of being selected.
- 2) Systematic or interval selection:** This is done by taking a uniform interval between sample items – every ninth item, or so.
- 3) Stratified or block selection:** When the range between the smallest and largest value varies considerably, this method should be used. It is a process by which data is segregated into extreme values and separate sampling is done for each stratum

with a higher percentage of verification for high value items and lower fraction for low value items.

4.8.4 Analysis of Errors in Sample

In analyzing the errors detected in the sample, the internal auditor will first need to determine that an item in question is in fact an error. When a sample is designed, the internal auditor should have defined tolerable error limits. Errors need to be verified against these tolerable limits. For example, in a substantive procedure relating to the recording of accounts receivable, an erroneous posting between customer accounts does not affect the total accounts receivable. Therefore, it may be inappropriate to consider this as an error in evaluating the sample results of this particular procedure, even though it may have an effect on other areas of the audit such as the assessment of doubtful accounts.

When the expected audit evidence regarding a specific sample item cannot be obtained, the internal auditor may be able to obtain sufficient appropriate audit evidence through performing alternative procedures. For example, if a positive account receivable confirmation has been requested and no reply was received, the internal auditor may be able to obtain sufficient appropriate audit evidence that the receivable is valid by reviewing subsequent payments from the customer. If the internal auditor does not, or is unable to, perform satisfactory alternative procedures, or if the procedures performed do not enable the internal auditor to obtain sufficient appropriate audit evidence, the item would be treated as an error. The internal auditor would also consider the qualitative aspects of the errors. These include the nature and cause of the error and the possible effect of the error on other phases of the audit.

In analyzing the errors discovered, the internal auditor may observe that many have a common feature, for example, type of transaction, location, product line, or period of time. In such circumstances, the internal auditor may decide to identify all items in the population which possess the common feature, thereby producing a sub-population, and extend audit procedures in this area. The internal auditor would then perform a separate analysis based on the items examined for each sub-population.

Chapter 5: Audit Planning

A job well begun is half done. To begin the job of internal audit, the first requirement is planning of internal audit. The planning should be in such a way that the objectives of internal audit and the requirements of the management are met. The advantages of an audit plan and audit programme are:

- Optimum utilisation of available resources
- Prioritisation of important areas to be examined
- Identification of potential risks
- Better co ordination
- Timely completion of audit

Internal audit planning is conducted at two levels:

(a) An overall internal audit plan for the entire entity is prepared for a given period of time (usually a year) and presented to the highest governing body responsible for internal audits, normally, the Board of Directors, or the Audit Committee.

(b) A number of specific internal audit plans are prepared for individual assignments to be undertaken covering some part of the entity and presented to the Chief Internal Auditor

5.1 Key Elements

Conducting the Overall Internal Audit Planning involves the following key elements:

(a) It is undertaken prior to the beginning of the plan period (generally, the financial year).

(b) It is comprehensive in nature covering the entire entity.

(c) It is directional in nature and considers all the Auditable Units (i.e., locations, functions, business units and legal entities including third parties, where relevant), along with the periodicity of the assignments to be undertaken during the plan period.

(d) It is normally prepared by the Chief Internal Auditor (or the Engagement Partner, where an external service provider is appointed to conduct internal audits).

(e) The outcome of this exercise is an “Overall Internal Audit Plan” (or the “Audit Engagement Plan,” if outsourced).

5.2 Objectives

The objectives of an Overall Internal Audit (Engagement) Plan are to:

(a) Ensure that the planned internal audits are in line with the objectives of the internal audit function, as per the internal audit charter of the entity (and terms of engagement, where it is an outsourced engagement) and also in line with the overall objectives of the organisation.

(b) Align the organisation's risk assessment with the effectiveness of the risk mitigation implemented through internal controls.

(c) Confirm and agree with those charged with governance the broad scope, methodology and depth of coverage of the internal audit work to be undertaken in the defined time-period.

(d) Ensure that overall resources are adequate, skilled and deployed with focus in areas of importance, complexity and sensitivity.

(e) Ensure that the audits undertaken conform at all times with the applicable pronouncements of the Institute of Chartered Accountants of India.

5.3 Factors influencing audit plan

The factors which determine the internal audit programme are discussed below:

(1) The number of units to be audited

Airports Authority of India manages more than 100 functional airports spread across the length and breadth of India. It is not possible to take up the audit of all the units every year. The airports are spread all over the country with varying complexities. Further the number of units to be taken up will also be dependent on the MOU/Annual Action Plan targets set by the management to the internal audit department.

(2) The intensity and scope of audit

The intensity and the scope of audit to be undertaken will largely depend on the risk perception of the management. It may also be based on the feedback from the earlier conducted audits, the quality of manpower available at the unit and sometimes complaints received from the stakeholders. The availability of audit resources also plays a significant role.

(3) The size of the unit

Out of more than 100 airports functioning under the Airports Authority of India a few are quite big whereas out of the rest, at some airports, Airports Authority

of India provides only communication and Air Navigation services(ANS), some are Civil Enclaves (Airports belonging to defence forces but terminal building and city side are managed by AAI and some are smaller Airports where both Airport services and Air Navigation are provided by AAI. Bigger the unit more are the transactions and complexities.

(4) Type of Audit to be undertaken

The management of AAI may mandate different types of audit to be undertaken such as:

- Accounts Audit
- Propriety Audit
- Surprise Audit
- Space Audit
- Physical verification of assets
- Project audit etc

The specific units to be covered will depend on the audit already undertaken.

(5) Periodicity and duration:

Since the internal audit resources are limited and the numbers of units to be audited are many, the management has to prioritise and decide the periodicity of audit. The Management of AAI has decided that the following units which are big will be audited every year:

(Cat-A)

- Mumbai (Western Region)
- Delhi (Northern region)
- Chennai Airport
- Southern Region
- Kolkata airport
- Eastern Region
- Guwahati Airport / NER region
- Trivandrum Airport
- Bhubaneswar Airport
- Amritsar Airport
- Jaipur Airport
- Lucknow Airport
- Calicut Airport
- Trichy Airport
- Ahmedabad Airport

- Juhu Airport
- Pune Airport
- Goa Airport

Similarly the following airports are to be audited every two years:

(Cat-B/C)

- Portblair Airport
- Patna Airport
- Imphal Airport
- Agartala Airport
- Coimbatore Airport
- Leh Airport
- Srinagar Airport
- Mangalore Airport
- Madurai airport
- Cochin Airport
- Baroda Airport
- Indore Airport

The rest of the units are to be audited once in 3 to 5 years.

The duration of the audit depends on the type of audit to be undertaken. Normally the units audited by the officers of internal audit department are given 21 working days in case of Major Airports & Regions, 14 working days in case of Category A and other units to be audited in 7 working days.

(6) Manpower available:

The availability of audit resources is mostly lesser than the requirements at many organisations. To make up for the shortage outsourcing of internal audit job is done to experienced CA/CMA firms. At times temporary help may be taken from the nearest unit or RHQ. The position of actual manpower in CHQ,AAI is given below:

SI No	Designation	Available
1	Executive Director (Fin)	1
2	General Manager (Fin)	1
3	Jt GM/Dy GM (Fin)	1
4	AGM/SM (Fin)	4
5	Manager (Fin)	2
6	AM (Fin)	1

5.4 Process of Audit programme

The following process is to be followed in respect of annual internal audit programme:

- (a) Every year, in the month of March Annual Audit Programme for internal audit should be made by the internal audit department. It should confirm to the targets set in the MOU/Action Plan. The periodicity also should be as decided by the management. The audit plan will be put up for approval of Member (F)/Audit Committee
- (b) The total number of audits and the units to be covered will be approved by the Member (F)/Audit committee.
- (c) Once the programme is approved, Executive Director (Internal Audit) will decide the actual period and duration of the audit and earmark the teams for the same.
- (d) Each team will be headed normally by a Jt GM/Dy GM and two other officers.
- (e) Before departure of audit team, the audit team will be informed sufficiently in advance, so that the documents required are kept ready.
- (f) For the units to be audited by the external firms, if the firms are already empanelled, an audit engagement letter will be issued endorsing a copy to the audit team.
- (g) A check list to be observed will be issued to the audit team both internal and external.
- (h) Before the completion of audit, GM (IA)/ED (IA) may visit the unit for supervision. He will discuss the observations of the audit team with the Head of the unit and get their clarifications. Based on the clarifications, the audit team will decide on the retention of audit paras/observations.
- (i) After coming back to CHQ, the audit report will be finalised within 15 days and put up to Member (Fin) for approval.
- (j) In the case of outsourced audit firms, the audit report will be received at CHQ through the regional offices (except Chennai and Kolkata Airport). The report will be reviewed by the internal audit department and put up to

Member (Fin) if acceptable. Otherwise the audit firms will be informed of the deficiencies and further report will be taken and processed.

5.5 Reference Documents

The internal auditors should be familiar with the following documents before commencement of audit:

- Accounts Manual
- Internal Audit Manual
- Works Manual
- Procurement Manual
- MM Manual
- Commercial Manual
- Cargo Manual
- HR Manual
- Delegation of Powers
- AERA Guidelines
- CVC Guidelines
- Technical and commercial, HR instructions
- Accounting policies and standards
- Auditing standards
- Audit observations of earlier audit by internal and external auditors
- Office orders/Directions/Circulars/Guidelines/ any other document.

Chapter 6: Conducting the Audit

Before taking up the audit, the auditee unit should be informed (except for surprise audit), so that the required records are kept ready. In case of internal audit by the outside professionals, a clear engagement letter outlining the areas to be covered, time period for audit, format of report, terms of payment etc should be issued with a copy of the letter marked to the auditee unit. It will be a good idea for the GM (IA) or ED (IA) to visit the unit and brief both the external experts and the airport executives about the audit process, expectation of management, extending cooperation to the auditors etc

6.1 Responsibilities of the team leader:

Every audit team will be lead by Dy/Jt.GM (IA) and will be assisted by two subordinate officers. At times if required, the team may be headed by GM (IA).

- The team leader has to ensure that the audit programme is carried out as per plan and will take all measures to achieve the same.
- He will guide the team and will identify the techniques and procedures to be adopted while conducting the audit.
- He will also review the work of the other team members to ensure that the audit is carried out as per requirement and the work performed is sufficient and effective.
- He will also examine the audit evidence collected and the effectiveness of the same.
- He will also ensure that the conclusions/interpretations drawn are correct and the observations are material.
- He will also evaluate the adequacy or otherwise of internal control systems and offer suggestions for improvement.
- He will also discuss the audit findings with the local management and decide on the inclusion of observations in the audit report.
- Finally he also has to ensure that the audit report is prepared and submitted to the management within a reasonable time period.

6.2 Responsibilities of the Head of Internal Audit Department

The ultimate responsibility for conducting the internal audit as per the requirements of the management rests with the head of internal audit department at the headquarters. The detailed responsibilities are:

- He is responsible for making the annual audit programme and gets it approved by the management.
- He will decide on the order and timeframe in which the audits will be carried out.
- He will also make the audit teams.
- He will co ordinate with the audit team and render assistance required if any.
- Will examine the draft audit report and ensure that the observations are material and correctly presented.
- Interact with the management and provide the feedback of the management to the department.
- Inform the management about any bottlenecks faced by the audit team
- Inform the management about any significant audit observations and their effect.

6.3 Responsibilities of auditee units

In order to ensure that the internal audit work carried out is effective the auditee unit should:

- Provide all the records required by the internal audit team.
- Head of finance of the auditee unit should co ordinate with other departments if the records/documents required are in their custody.
- Explain the auditors about the internal control measures adopted. At times procedures followed at smaller units may be different.
- Explain and produce documents if any regarding the observations of the audit team. Effort should be made to understand and analyse the issue rather than justifying it blindly.
- Give timely reply of the audit report.
- Co-operate with the external experts if audit is conducted by them and treat them reasonably.
- Take any corrective measures required as observed by the audit.

6.4 Audit Evidence:

According to Standards on Internal Audit 320 (SIA-320), “Internal Audit Evidence” refers to all the information used by the Internal Auditor in arriving at the conclusions on which the auditor’s opinion is based. It includes both information collected from underlying entity records and processes, as well as information from the performance of various audit activities and testing procedures. Gathering appropriate and reliable audit evidence is a critical part of the internal audit process.

6.5 Types of Audit Evidence:

6.5.1 Oral Evidence:

Oral evidence obtained by the audit may not be sufficient to raise an audit observation on its own. It should be corroborated by the physical evidence or documentary evidence.

6.5.2 Documentary evidence:

Various documents maintained at the unit like agreements, contracts, bank statements and other documents. The reliability of documentary evidence is high.

6.5.3 Physical evidence:

Sometimes a physical checking especially in the case of assets may be required to ensure their presence and their correctness.

6.5.4 Financial Records:

The financial accounting records are based on various documents like vouchers etc. The financial records should tally with the documents. Otherwise it will be cause for concern. The reliability of the accounting records is high if they are drawn up correctly.

6.5.5 Analytical evidence:

An independent calculation or an analysis of collected data by the auditor may lead to a conclusion. This is interpreted evidence and should be doubly checked by the auditor before relying upon it.

6.5.6 Electronic Records

In present days, many of the activities are carried out through ERP and the data are maintained electronically. In those cases the auditor should know how to access and interpret the data for proper conclusion.

6.6 Auditing Techniques:

The following are the normally adopted auditing techniques in the conduct of internal audits:

- **Vouching** is the backbone of auditing. It is essential in the audit of all financial transactions and records.
- **Scrutiny** of accounts and data is undertaken to isolate non conformities or exceptional trends or items. This will give a direction to the auditor for an in depth examination.
- **Verification:** In case of cash, stores, fixed assets, Bank Guarantees, FDs etc., physical verification will be the most appropriate mode of examination.
- **Confirmation:** Confirmation from the third parties will be the most reliable form of evidence in the case of bank balances, sundry debtors and creditors.
- Independent **analysis** and **re-computation** based on the data will help the auditor to form his opinion on the items audited. Before he comes to a conclusion, he should double check and re-examine all the assumptions.

6.7 Working Papers:

According to Standards on Internal Audit (SIA)-330, “Internal Audit Documentation” refers to the written record (electronic or otherwise) of the internal audit procedures performed, the relevant audit evidence obtained and conclusions reached by the Internal Auditor on the basis of such procedures and evidence (Terms such as “work papers” or “working papers” are also used to refer documentation). The Internal Auditor is expected to record and collate all the evidence obtained in the form of complete and sufficient audit documentation.

Requirements

1. The internal auditor shall record the nature, timing and extent of completion of all internal audit activities and testing procedures in the form of reproducible documents.
2. Documentation shall be complete and sufficient to support the analysis conducted on the audit evidence, the identification of findings, the formulation of audit observations and the drafting of the internal audit reports based on the findings. Documentation shall clearly state the purpose of the procedure, the source of evidence, the outcome of the audit work and also identify the performer and reviewer.
3. The internal audit function shall maintain a written process explaining the manner in which documentation will be prepared, reviewed, stored and finally discarded, to ensure quality and conformance to Standards on Internal Audit.
4. The internal audit work paper files shall be completed prior to the issuance of the final internal audit report.

5. The ownership and custody of the internal audit work papers shall remain with the Internal Auditor. Where part of the audit work is outsourced to an external audit service provider or an expert, and reliance is placed on the work papers to issue the internal audit report, the ownership of the work papers shall be assumed by the Internal Auditor from the third party. However, where reliance is placed only on the report of the third party who insists on retaining ownership to their work papers, adequate provisions shall be in place to have access to the work papers, if and when required.
6. The working papers should be accurate in facts and figures. Any error in this may lead to wrong reporting.
7. The working papers should be clear and self explanatory. Audit trail should be clear.
8. Only relevant papers should be kept.
9. All the papers should be properly listed and indexed so that any future reference can be made easily.

6.8 Consideration of Laws and Regulations

According to the Standard on Internal Audit -17 (SIA-17), the internal auditor should verify and find any non compliance with reference to any law/regulation. Non-compliance means, acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

The non compliance may result in fines, litigation and loss of reputation of an organisation. In some extreme cases it may be so material that it may affect the functioning of the organisation itself.

According to SIA-17, **the objectives** of internal audit are:

- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- (b) To perform specified audit procedures to help identify instances of noncompliance with other laws and regulations that may have a significant impact on the functioning of the entity; and

(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the internal audit.

Steps to be taken:

It is the primary responsibility of the management to ensure all legal and regulatory requirements are complied with. According to SIA-17, adopting the following measures will help management in ensuring the legal compliance.

- Identify legal requirement and make standard operating procedures to ensure the same.
- Make and implement appropriate internal control mechanism.
- Develop and publicize Code of conduct for employees.
- Engage outside legal experts if required.
- Assign responsibility for detecting non compliance
- Maintain a register of significant laws and regulations which are required to be complied with.
- Maintain a record of complaints
- Appointment of a compliance officer.

6.9 Audit Checklists

Preparation and communication of checklists for various functions of an organisation will greatly reduce the time taken by the internal auditor to understand those functions especially when they are outsourced. This will also ensure that all the important areas are covered and audit efforts are focussed. However mere existence of a checklist is not a bar for the auditor to examine the issues not listed in the checklist whenever and wherever required. The checklists are only illustrative in nature and can be supplemented and amended as required. The department wise illustrative checklists are given in the **Annexure I**.

6.10 Annual Audit Programme

The annual internal audit programme of the division should be so framed that all the Accounts sections, Commercial, Land Management, Engineering, Purchase and Stores departments are audited once a year and other departments at least once in two years.

The programme should also include the following items of work:

- a. Review of reconciliation of suspense registers maintained in different accounts sections periodically, say, twice a year and reporting the status thereof to the Head of Finance and Accounts department.
- b. Review of detailed schedules for suspense balances prepared at the time of mid-year closing of accounts as well as annual closing of accounts both with reference to their correctness and adequacy of the action taken for clearance of all old items.
- c. Review of the correctness of all important management information reports sent to corporate office as well as those to local top management.
- d. Review of implementation of various policy and procedure manuals issued by Corporate Headquarters from time to time.

While drawing up the annual programme, provision must be kept to meet certain contingencies like extension of time that may be required for certain audits or to take up any special assignments that may have to be carried out by the Internal Audit.

The convenience or otherwise of the departments to be audited, if audit is taken up at a particular time should also be taken into consideration while drawing up the programme. As far as possible the time of auditing of the departments concerned should be so selected that it gives the departments concerned the least convenience or hindrance to their routine work. This will ensure maximum co-operation of the concerned departments. Where transactions to be covered are less it will be better to take up annual audit and where the transactions to be covered are very heavy it is desirable to stagger the annual audit into 2 or 3 spells. The planning of programme of audit should be flexible both as to frequency and area of coverage but not so broad as to result in repetitive work of little value. If it is considered that surprise audit would reveal the defects of the system or of slackness on the part of the staff in carrying out their day to day duties, there should be no hesitation to arrange such audit.

The audit programme should clearly indicate the airports/areas of audit to be taken up in 4 quarters of the year, viz. April to June, July to September, October to December and January to March. At the beginning of every quarter, a report will also be sent to the corporate office indicating how far the programme of the previous quarter was adhered to and the extent of any modifications required in the programme planned for the current quarter because of spill over of audits from earlier quarters or other reason not anticipated earlier.

Time taken for audit:

Tentative man days worked out based on the (volume of transactions) level of activities and number of employees, for conducting the internal audit of various units like International Airports, Regional Offices, other airports, project offices, cargo units etc., are given at the end of this chapter.

To measure the efficiency of the audit staff, some time limit has to be fixed within which the audit should be over. Where an audit takes significantly less than the planned time, the reasons therefore should be gone into for any consequential action

required. However, where the Audit team in charge wants some more time to complete the audit, he can always approach the Head of the Internal Audit department, explaining the circumstances and take more time for completing the audit. It will be helpful not only in evaluating the performance of the auditor but also in providing guidance for planning future audit if the Audit team in charge is required to keep a record of the time taken by him for each type of checking in his working papers. Except in the case of prolonged audit, no intermediary progress reports need be submitted to the Head of the Internal Audit department.

Staff:

The auditors selected for the purpose should as far as possible be conversant with the work of the department which is taken up for audit. Alternatively, at least a senior auditor should be there to guide the junior, in the audit work. Assistance of engineering qualified or other technical staff may also be taken while covering areas which may require some technical knowledge as well.

Working Sheets:

Working Sheets include the requisitions forwarded for furnishing the records and documents required for scrutiny. List of files obtained and the cases/files selected for Audit. Working papers should be written in ink. All the audit findings should be recorded for each type of checking separately. The objections of the auditor should be written in clear terms with full particulars so that there would not be any necessity for referring to the original documents while discussing with the heads of the departments or the Head of the Internal Audit department. The explanations of the head of the department can be written in the clarification column which will be a permanent record.

The cases of fraud or serious malpractices should not be discussed with the staff nor reported to the head of the department before they are discussed with the Head of the Internal Audit department who would decide the further course of action and how the case has to be handled.

Filing System:

All rules, regulations, notifications and other basic data relating to each department or Authority as a whole should be kept in separate files Subject-wise making them up to date. For example, the files may contain Standing Orders, Delegation of Powers, House Allotment Rules, Medical Attendance Rules, Establishment Rules, Organisation Charts, Circulars, etc.

Separate files should be opened to record the final audit reports with replies, statements of accounts, if any, year after year etc.

In addition separate files have to be opened each year of audit for keeping audit programmes, working sheets, statistics, queries, raised and answered, copies of the for the year, final orders of the superiors and follow-up action, if any. The files

mentioned above should be kept under proper custody and should be readily accessible to all the staff of the internal audit section as and when required by them. Some of the files which may be of confidential nature should be kept under the personal custody of the head of the Internal Audit Department.

Time schedule for Audit

As per the approval for the concept of delineation of functions of Internal Audit to outsourcing vis-à-vis in-house audit, the function of internal audit will be carried as detailed below:-

- I.a)** Outsource /avail services of External Chartered Accountants Firms for conducting the audit of the operational revenue and expenditure, audit of the Date. Of HR and General Administration, stores, terminal management maintenance works, etc of all A, B, and C category Airports.
- b)** Conduct the audit of the sensitive /specialized area like Commercial Contracts, Engineering contracts for capital works, Capital Procurements, Corporate HQrs, Project Offices, Cargo operations and review of system & Procedures by the Internal Audit Department.
- c)** Carry out the internal audit of operational Category A Airports by External Auditors every year; and
- d)** Carry out the internal audit of operational Category B Airports by External Auditors in every two years
- e).** Carry out the internal audit of Category C Airports and others by External Auditors in every three to five years

Part II: Detailed Audit Procedures

Chapter 7: Revenue

Airports Authority of India generates revenue through the following sources: -

1. Traffic Revenue/ Aeronautical Revenue
2. Non Traffic Revenue/ Non Aeronautical Revenue
3. Airport Leasing Revenue

TRAFFIC REVENUE/ AERONAUTICAL REVENUE

1. Route Navigation Facilities Charges: -

This is charged for navigating the aircraft to its destination from the departed airport. Route navigation is also provided to all overflying aircraft in the India airspace. Basically, the charges are charged on weight (All Up Weight) of the aircraft and the distance flown. ATC Radar Controllers provide route navigation.

2. Terminal Navigation Landing Charges: -

This is charged for guiding the aircraft up to the point of touch down. TNLC is applicable at International Airports and Civil Enclaves. Airports which are owned by Defence are categorized as Civil Enclaves. Generally ATC Tower controller provides terminal navigation of the aircraft.

3. Landing Charges: -

This is charged from the point of touchdown to its ultimate parking in the bay. Apron Control guides the aircraft from the point of touch down to its ultimate parking in the bay.

4. Parking Charges: -

This is charged for parking the aircraft beyond two and a half hours in the apron.

5. Housing Charges: -

This is charged for permitting the aircraft to be parked inside the hangar owned by AAI.

6. Passenger Service Fees: -

This is charged for the facilities provided in the terminal as well as for security arrangements at the airport. The same is collected from all embarking passengers at specified rates from time to time. Bills for PSF are to be raised based on the passenger manifest submitted by the Airlines.

7. User Development Fee: -

UDF is charged to cover any deficit in revenues so as to ensure fair return on investment. Bills for UDF are to be raised based on the passenger manifest submitted by the Airlines.

NON TRAFFIC REVENUE/ NON AERONAUTICAL REVENUE

1. Trading Concessions: -

Space allotted on account of various services to the passengers in the terminal is categorized as a Trading Concession. Various parties are allowed to do business within the terminal building to cater to the needs of a passenger at the airport. Passengers may need Restaurants, Hotels, Snack Bars, Travelers' Requisite Stall (TR Stalls), Duty Free Shops, etc.

2. Rent & Services: -

Different agencies like airlines, concessionaires utilize the land, hangars, buildings and other facilities allotted by the Authority on Long/Short Term agreement. These agencies are charged rental for the land/ space allotted to them.

3. Car Parking: -

This is the charge collected for parking vehicles at the airport in the space specially created. This facility is also outsourced to a licensee on the basis of competitive bidding through open tender.

4. Other Commercial Services: -

Various facilities for the passengers like Ground Handling, Advertisement rights, Lounges etc. are being created at the terminal. These facilities are being rented out to concessionaires/ airlines. AAI charges license fee and royalties from the licensee.

5. Miscellaneous Services: -

Under this broad head of revenue, major sources of revenue under this head are:

-
- Left Luggage
- Retiring Room
- Trolley Retrievals Contracts
- Interest on Staff Advances
- Sale of Tender

6. Extension Of Watch Hour

In airports not having 24 hour watch open i.e. generally ATC watch hours are kept at the specified duration. In case, any operator wants to utilize the airport beyond the watch hours of the airport, they are charged 'Extension of Services Houses (Airports/ ATC) are categorized into (a) Instrument Landing System Operating Stations (ILS Station) and (b) Non-ILS Operating Stations (Non-ILS Station). The charges are payable as per tariff approved by AAI from time to time.

AIRPORT LEASING REVENUE

In terms of the OMDA Agreement entered with Joint Venture Companies at Delhi and Mumbai Airports, AAI receives revenue share from these JV companies every month.

AUDIT PROCEDURE

Traffic Billing

- To see that all the bills are raised for each and every landing of the aircraft on the basis of AOW of the aircraft.
- In case of RNFC bills, raise them as per Weight-cum-Distance formula as per approved schedule rates.
- In case of over flying the bills are raised by the FIR in which the aircraft enters Indian Air Space the first time, for the entire distance flown up to exit point of Indian Air Space.
- In case of parking and housing charges calculation of free parking period needs to be checked.
- Bills of PSF should be verified with the Passenger Manifest of the operators. Dollar billing and Rupees billing should be checked wherever applicable.
- To see that 65% of the PSF is booked in security code head and rest in the Passenger Facilitation Code Head. Now there is an increase of PSF (security control).
- Bills are raised on fortnightly basis for all operators who have credit facility. The bills for first fortnight are raised on or before 25th of the month and second fortnightly on or before 10th of the succeeding month. This is subject to change as the credit policy in vogue from time to time. There should not be any delay in raising the bills. The new credit policy is applicable from 1-4-19.

- Other operators who do not have credit facility, the payment should be received by ATC Controller/ Briefing Officer before the takeoff of the aircraft.
- All cash bills are to be raised on completion of the operation.
- Number of operations of a particular operator/ airlines needs to be verified with reference to CA-12/ CA-17.
- To see that data for raising RNFC over flying and foreign airlines landing at Indian Airports are provided in time to IATA for rising of bills on time.

Credit Facility

- Operators can avail credit facility on submission of security deposit as provided in the AAI Credit Policy.
- Verify the system for monitoring of collection/ receipt as per the policy and discount allowed on traffic billing for the payment made within the credit period.
- In case of withdrawal of credit policy on account of default in payment, the operator shall be allowed to operate flights on Cash & Carry basis.

Non Traffic

Billing

- To see that the bills are raised at the beginning of the billing period and the amount is realized within the time allowed.
- It should be ensured that billing is done with proper frequency i.e. monthly/ quarterly/ half yearly/ annually as per the terms of the contract.
- Amount billed and received as per the terms of the agreement/ contract.
- Complete details like the area SQM/ SQF locations, rate SQF nomenclature of the charges levied, other charges like utility charges etc., total amount claimed with the bill, various accounting codes under which the revenue is classified are indicated clearly.
- In case of expiry of contract but licensee not vacating the space/ land allotted, the bills for damages for unauthorized occupancy needs to be raised by the concerned Directorate in consultation with Law Department or as per the guide lines issued by CHQ on the subject from time to time.

Agreement

- Whether action was taken in advance to renew a contract/ for fresh contract.
- It should be ensured that all the procedures for entering into a fresh contract/ renewal of an existing contract are followed as per the provisions of the commercial manual circulars, guidelines, norms etc in vogue.
- Whether it was ensured that before a party was given possession of the property leased/ rented, the sanction of the Competent Authority is available and the required amount of security deposit and rent in advances are deposited by the party/ license.
- All the contract agreements are in the proper form prescribed for that purpose.
- Ensure E billing on AIMS program monitored by the IT Department/ CHQ. No manual bills are to be raised.

Maintenance Of Records

- Verify whether a register for the contracts/ lease furnishing all the details like, nature of the contract, name of the contractor, property leased out, measurement/ area leased out, security deposit, frequency of billing, license fee, style of contract (ad-hoc or regular), commencement of lease, validity period, file reference, etc. is being maintained.
- Separate bill register for non-traffic revenue is being maintained depicting bill number, date, name of the party, nature of revenue, amount, account code etc.

EMD, Security Deposit & BGs

- Earnest Money Deposit received from the tenderers at the airports station/ regional office should be remitted promptly into the account of the Authority.
- EMD of the successful bidder is converted into security deposit and balance of security deposit is collected in the prescribed form.
- EMD of the unsuccessful bidders were released (refunded) at the earliest or as per the provisions of the commercial manual/ DOP.
 - EMD, SD & BGs received are accounted under the proper head of account and registers of EMD, Security deposit & BGs are maintained and up-to date.
 - Conversion of Unclaimed Security Deposits, EMD & Advances to Income as per the AAI Norms

Accounting Of Revenue And Sundry Debtors

- Schedule of sundry debtors, deposits etc. are made at the end of the year and tallying with the general ledger.

- Review the monthly journalisation of billings and postings in sundry debtor's ledger and other records.
- Review sundry debtors' ledger and see that adequate action is being taken to realize the dues in respect of old outstanding cases. Ascertain whether confirmation letters for the outstanding amounts are obtained at the year-end from the customers.
- See that a systematic review of the claims on customers is made with a view to realize speedily the amounts billed.
- See whether the bills raised are in accordance with the accounting policy, guidelines issued and decisions conveyed for the purpose of recognition of revenue on cash basis/ receipt basis.
- See that receipts from customers are not lying as unlinked credits or under advances/ SD account or other airports pending allocation to the correct sundry debtor account. Failure to allocate or cases of delay should be commented upon.
- See whether interest is claimed on over-due amounts and where not claimed, the orders of the competent authority are on record.
- Review the provisions for bad and doubtful debts and for contractual obligations to see whether they are made as per the directives/ policy guidelines issued by the Corporate Office.
- It has to be ensured that the proper write-off action has been initiated for the very old debtors not recoverable/ parties not traceable and to see that the proper procedure has been followed for write-off action.
- Examine the system/ procedure for accounting of deductions by the parties and see whether credit notes are issued under the signature of the appropriate authority taking into account the TDS also.
- Examine the system/ procedure for accounting of revenue/ income accrued but not due correctly.
- Review the reports prepared for the management regarding billing, sundry debtors etc. for their accuracy with reference to basic records.
- Wherever necessary the records in Commercial department should also be referred to. The checks prescribed for audit of Commercial Department may also be kept in view.
- Bill to Bill Adjustment in R/O Metrological Department, IB, Custom Department, State Police ,State Gov offices and other Gov/PSU Agencies etc

Chapter 8: Commercial Department

The main function of the Commercial Directorate is to maximize commercial revenues by providing world class shopping experience and service/ facilities at the airports. Besides planning of commercial activities, framing of policies and procedures, transparent and competitive selection of bidders to develop, manage and operate commercial concessions viz., Duty Free Outlets, F & B Outlets, General Retail Services, Advertisements, Foreign exchange/ banking/ ATM counters, Ground Transportation including Vehicle Parking Management and miscellaneous service concession/ license at airports, which also includes allotment of space in Airport Premises/ Terminal Buildings (within/ outside) to Scheduled/ Non-Scheduled Airlines and other user agencies at applicable rentals, identifying new ventures for commercial exploitation, Commercial Directorate also has to ensure managing and monitoring of concessions.

The Internal Audit of commercial contracts covers adherence to policies and guidelines for award of commercial contracts by the Authority as contained in Commercial Manual, DOP, Circular for Rationalization of license fee of Land/ space and any other instructions and guidelines in this connection.

A. Area to be covered:

- (i) Identification of facility
- (ii) Fixation of MRLF
- (iii) Tendering process for contracts
- (iv) Delays in award of contracts
- (v) Billing for the commercial contracts
- (vi) Collection of dues
- (vii) Levying of penalties for delayed payments
- (viii) Compliance with provision of the commercial manual
- (ix) Action on space audit report

B. Records to be reviewed:

- (i) Agreements with the parties
- (ii) Handing and Taking over reports for the license
- (iii) Bills Register
- (iv) Sundry Debtors Register/ Ledger
- (v) Space audit report

C. Audit Procedure:

The procedure involves checking and review of following records/ activities/ areas.

I. Audit of Identification of facility and fixing of MRLF

It should, interalia, be verified that:

- (i) For any new facility in principle approval is accorded by CHQ.
- (ii) The detailed drawings of the building are approved by the Directorate of Planning.
- (iii) Space/ location of the commercial facility is identified by the Commercial Directorate.
- (iv) Physical dimensions, precise location, area etc. are specified/ identified.
- (v) Feasibility of commercial proposals, no objection/ clearance from Operations/ Security/ Regulatory Agencies and Financial viability, etc are obtained (within AAI and other concerned Departments).
- (vi) The proposal is covered under any of the categories as per Chapter 6 of Annexure-II of the Commercial Manual.
 - (a) Regulatory
 - (b) Facilitation
 - (c) Existing Commercial and innovative facilities/ activities

- (d) Employees Welfare-cum-Commercial
- (vii) For existing and new facilities, it should be ensured that the site was ready and free from encumbrances before tendering.
- (viii) The basis for fixation/ review of Minimum Reserved License Fee (MRLF) is as per Chapter 7.3.1 to 7.3.5 of the Commercial Manual and has approval of appropriate authority as per DOP.
- (ix) If downward revision is necessitated in MRLF, provisions laid down in Chapter 7.3.4 of the Commercial Manual are complied with.

II. Tendering for the contracts

(i) Tendering Process:

- (a) The schedules and stages of tendering process as per 7.5.1.
- (b) The indicative schedule to be followed for completion of the tendering process is as per 7.5.3 of the Commercial Manual.
- (c) EMD and tender processing fee shall be as per Chapter 7.7 of the Commercial Manual.
- (d) Selection criteria i.e. global tender, limited tender, open tender, short term tender/ stop gap tenders shall be as per Chapter 7.5.3 of Commercial Manual.
- (e) The time schedules indicated in the Commercial Manual for various stages of processing of tenders, evaluation, approval, award, and completion of formalities by the successful tenderers, execution of agreement, proper taking over by licensee, refund of EMD of unsuccessful bidders are strictly adhered to.
- (f) One party is issued with only one tender document for an identical license/ facility in separate designated buildings at an Airport, and where the sole proprietor of more than one firm is the same person, it will be considered as one legal entity for the purpose of one tender.
- (g) Proper records for sale of tender documents and EMD are maintained.
- (h) No Dues Certificate from AAI is submitted as per Annexure-I to Annexure-V of the Commercial Manual.

- (i) The recommendations of the Commercial Directorate are correct.
 - (j) Tenders of the parties facing action under PPE Act with AAI were rejected by giving reasons and EMD forfeited besides taking action as per the Commercial Manual.
 - (k) Any clarifications required in relation to any of the technical documents were obtained at the earliest but no new documents were entertained.
 - (l) The date of opening of financial bids was notified to the technically qualified bidders.
 - (m) Comparative statement is prepared and signed by all the committee members on the day of the opening of the financial bids and countersigned by HOD at CHQ and RED/ APD/ in-Charges at the Airport.
 - (n) At all stages of E-tendering CPP Portal shall be uploaded without delay.
 - (o) AIMS model shall be uploaded.
 - (p) Evaluation shall be as per Annexure-VIII and the Airport Director/ RED shall recommend/ approve (as per DOP) award of license.
- (ii) Negotiation with the parties:**
- (a) Negotiation is done along with H1 bidder as per CVC guidelines.
 - (b) As far as possible negotiations are to be avoided. In exceptional cases negotiations with the highest tenderer only are carried out within the broad ambit of the tender conditions.
 - (c) Negotiations are to be carried out only with the authorized representatives of the highest tenderer after having obtained the authorization letter in writing.
 - (d) Negotiations are to be carried out by a Committee to be appointed by the CAB/ Member-in-charge of commercial/ REDs/ Airport Director (AD) in respect of cases falling within the competence of acceptance of tender.

- (e) Tenderers must confirm in writing the acceptance of negotiated terms and conditions.
- (f) The letter from the tenderer specifying the revised terms and conditions should be signed stamped and dated by the licensee or his authorized representative on printed letter head of the firm. This letter should also be signed and dated by the members of the negotiation committee. The documents should form part of the Tender Documents.
- (g) Negotiations proceedings are to be recorded and signed by all the Members of the Negotiation Committee.

(iii) Approvals for award of contract:

- (a) Evaluation of Financial bids was carried out by the Commercial Directorate within stipulated period from the date of opening of the financial bids and the highest acceptable tender identified and along with the recommendations, the file was referred to Department of Finance for concurrence.
- (b) Financial concurrence was accorded after checking
 - a. Discounted cash flow wherever necessary.
 - b. The rates offered are not less than MRLF.
 - c. Optimum revenue was obtained without violation of the sanctity of the tenders.
- (c) The proposal was forwarded for approval/ acceptance of tender as per DOP and Commercial Manual with Financial concurrence and recommendation of APD/ RED wherever required before putting up to RCAC/ CAB/CA.
- (d) Contract is approved as per DOP after the proposal is concurred by department of finance. Also check that in case of subjective finance concurrence, the detailed justification is recorded by the concerned department.

- (e) Any commercial activity not covered in the Commercial Manual or Commercial Instructions is implemented after in principle approval by CHQ.
- (f) If any delay has taken place in obtaining approval, either locally or from RED, HQS/ CHQ in award of contract, quantify the loss of revenue due to the delay in award of the contract.

III. Award of Contract and Agreement with the contractors

- (i) In case of existing license 'No Dues certificate' from finance Department is reconfirmed.
- (ii) Whether the agreements of all the facilities are valid during the period of audit. All the facilities in operation on regular/ adhoc/ temporary basis are awarded as per DOP for the relevant period.
- (iii) Acceptance and advance license fee is deposited as per Letter of Intent/ Agreement.
- (iv) Security Deposit is submitted as per Chapter 7.13 of the Commercial Manual. Separate Security Deposit is obtained towards telephone/ electricity/ water consumption etc.
- (v) Gestation period is allowed as per Chapter 7.12 of the Commercial Manual.
- (vi) A copy of award letter along with a brief note is sent to the local accounts department for the purpose of billing and other related matters.

IV. Handing over of Facilities

- (i) Handing over/ taking over report is duly prepared and signed by both the parties.
- (ii) The handing over of facilities shall be as per Chapter 8.1 of the Commercial Manual.
- (iii) Electricity, outlet for disposal of water and other basic facilities are provided at a single point at the site; and no undue favour is extended to the contractors/ licensees by providing full distribution of the facility.

V. Earnest Money Deposit and Security Deposit

- (i) EMD is fixed as per Chapter 7.7.1 of the Commercial Manual.
- (ii) In case of Global Tender (DFS etc.) the EMD shall be in the currency as defined in RFQ/ RFP.
- (iii) EMD should be by way of Demand Draft, Pay Order only.
- (iv) In case of E-tender the amount of EMD to be remitted through CPP portal or as per the procedure defined in the tender document.
- (v) The refund of EMD of unsuccessful tenderers shall be as per DOP 2.24.
- (vi) The quantum of Security Deposit is fixed as per criteria laid down at Para 7.3.1 of the Commercial Manual.
- (vii) Security Deposit to be furnished in the form of Bank Guarantee only to be issued by scheduled bank having validity period of 180 days from the date of expiry of contract. However, Bank Guarantee from co-operative bank (even scheduled) or in the form of FDR is not acceptable.

VI. Billing/ Realization/ Debtors

- (i) EMD of the successful bidder is converted into SD and the balance amount is given.
- (ii) Check that space rent and land license fee is billed as per rates prescribed for the station and escalated annually at the prescribed rates.
- (iii) The amount of SD is received in the form of DD/ BG as per the terms of the contract before taking over possession of the facility.
- (iv) The valuables like BG, etc are kept under the safe custody as per circulars issued from time to time in this regard.
- (v) A copy of the valuables received in lieu of SD and a register having the details of the valuables and their physical movements are properly maintained and kept updated.
- (vi) The validity of BG is for the contract period plus six months.

- (vii) The BGs are kept extended from time to time during the tenure of the contract and in case of any default/ necessity to encash the valuable, prompt action has been taken by the commercial department.
- (viii) A confirmation from the banker is obtained for BG submitted by the party.
- (ix) Check the raising of monthly bills toward license fee and its deposit by the party for various contracts.
- (x) For regulatory agencies like Immigration, Health, Customs, MET Departments etc. billing for space rent and electricity is done as per applicable rates.
- (xi) In case of delay in settlement of bills whether any bill for penal interest has been raised or not as per the accounting policy of AAI.
- (xii) Rebate allowed on license fee if any is in compliance with the provisions of the Commercial Manual Chapter 8.6.
- (xiii) Check the complete documentation, completion of registers, deposit of cheques with the bank, issue of receipt for the cheques/ DD received etc.
- (xiv) Check the relevant concerned correspondence file for the respective contract and indicate the facts indicated in any letter/ document either from the party or APD, which are affecting the effective revenue earning of the Authority.
- (xv) Check whether timely notice for termination of contract etc has been given as per the Commercial Manual, if not, reasons for the same may be ascertained and indicated.
- (xvi) Check the details of outstanding dues against various parties in respect of facilities awarded to them. Indicate the complete details along with ageing of outstanding, action taken for recovery etc.
- (xvii) Verify the records of space, list of available commercial facilities etc. Verify the records/ reports of the space audit conducted by the team constituted/ and the

records routine/ surprise inspection conducted by the Commercial-in-charge or the Airport-in-charge.

- (xviii) The available facilities may be verified with the records for the area allotted and physically occupied by the licensee/ contractor.
- (xix) To see that Debtors Management is done as per the Commercial Manual Chapter 9.

VII. Renewal of Contracts

- (i) Whether timely action is taken as per the Commercial Manual for renewal of facility/ license before the expiry of its term.
- (ii) Temporary extension/ extension on adhoc basis is done as per Chapter 8.7 of the Commercial Manual.
- (iii) Extension beyond six months, if any, is approved by the Chairperson.
- (iv) Quantify the loss of revenue, if any, due to not taking timely action for award of new contract vis-à-vis extension of existing contract.
- (v) Whether any of the facility remaining unutilized resulted in loss of revenue to AAI,
- (vi) Indicate complete details of such cases along with financial implication.

VIII. General

- (i) Space audit is conducted yearly and prompt action is taken based on findings of the report.
- (ii) Adequate/ sufficient initiatives are taken for achieving the targeted revenue or increasing the revenue potential at the Airports.

- (iii) The terms and conditions and the quality of service standards as per the norms laid down are adhered to by both AAI and licensee.
- (iv) Periodical checks are carried out to ensure that rates being charged and the services being provided through such facilities are as per the terms and conditions of the license agreement.
- (v) A separate file/ dossier of performance in respect of each license/ facility is maintained (proper monitoring on the billing, collection, performance of the license is being carried out) and any action required is taken promptly against the defaulting licensees.
- (vi) Quarterly report of defaulting contractors is sent to RHQ/ CHQ.
- (vii) Performance evaluation of agencies and procedure for debarring is complied as per chapter 8.12 of the Commercial Manual.
- (viii) Any actions required to be taken by AAI are taken promptly in order to avoid inconvenience to the passengers.
- (ix) Submission of MIS – to Department of Finance and Commercial Directorate at RHQ/ CHQ are made as per the schedule.

Chapter 9: Joint Venture and Tariff Cell

Joint Venture and Tariff Cell is tasked with the management of affairs relating to the Joint ventures of AAI and the tariff related issues of major airports regulated by AERA. The joint ventures at present are Delhi Airport, Mumbai Airport, Hyderabad Airport, Bangalore Airport, Chandigarh Airport, Nagpur Airport, and Flight Training School Gondia. The Internal Auditor shall check that the financial interests of AAI are protected, revenue which is supposed to be received is received, there is no leakage of revenue, the agreements with the JVC are followed and Government Audit observations are settled. Further the tariff proposal of major airports are prepared and submitted to AERA correctly and in time, the tariff is approved and implemented in time. The Internal auditor may offer suggestions for improvement in the system.

Activities covered:

- Monitoring of revenue received from JVCs
- Monitoring of Independent Auditor's report
- Government Audit observations
- Submission of Tariff Proposals to AERA
- Co ordination with AERA
- User Consultations
- Implementation of Tariff approved by AERA
- Truing up and adjustment in the next control period

Records to be reviewed:

- OMDA with Delhi and Mumbai
- Agreements/MOU relating to other JVs
- Shareholders Agreement
- Report of the independent auditor
- Government Audit observations
- Tariff Proposals submitted to AERA
- AERA Guidelines
- Tariff Orders
- Calculations for truing up for the previous control period

Points to be seen:

- Review the receipt of monthly revenue share from Mumbai and Delhi
- Check action taken after actual revenue details are available
- Review the report of the independent auditor
- Review action taken on the observations and realisation of additional revenue

- Review Government Audit observations
- Check the action taken on the observations
- Check the compliance with various provisions of OMDA/MOU/Agreements
- In case any bill is to be raised for deployment of AAI staff verify whether it has been done and realised
- Review the dues from JV companies. Comment if delayed abnormally.
- Review the outstanding issues with the JV companies
- Check whether any delay is there in raising any of our claim
- Check whether the tariff proposals of all major airports are prepared correctly and submitted to AERA in time
- Test check the proposals with AERA guidelines
- Review the system of coordination with AERA for timely approval
- Review the minutes of user consultation meetings
- Verify whether tariff approved by AERA is implemented fully
- Verify any significant variations while truing up
- Verify the additions/deductions included due to truing up.

Chapter 10: Pay and Allowances

Coverage

The function of pay and allowances will cover the following areas/claims:

- Pay and its components
- Travel claims including transfer claims
- Medical claims both indoor and outdoor
- Leave encashment and accounting
- PRP
- Loans and Advances and recoveries
- Other Misc reimbursements

Authority/Reference

The regulation of various elements is governed by the HR policies, guidelines, Delegation of Powers etc. Though the policy guidelines are issued by the HR directorate, the implementation at the time of payment is done by finance. The data in ERP are also updated by the HR directorate. Thus both finance and HR directorate contribute to the internal controls of the pay and allowances function.

Audit objectives

The following are the audit objectives in the audit of pay and allowances:

- To ensure that the pay and allowances drawn are correct and as per entitlement
- To ensure that proper recoveries are made from the pay
- To ensure that the guidelines in this regard are followed in letter and spirit
- To ensure that the accounting for these are done correctly in the books
- To ensure that proper segregation of roles exist.
- To ensure that AAI's interest is protected

Points to be examined:

1. Check that the new entries in the employee master is supported by relevant papers. Examine them.
2. Check whether increments and DA are changed only on the appropriate dates. In case any change is noticed on other dates, verify them.
3. Check the system followed for retired, resigned, expired employees. Check the payments processed for them.
4. Check the system of accounting for absentee and late in the pay bill. See whether it is being done as per the policy.
5. Check the leave sanction records. Cross check with the leave account and payments made.

6. Check the payments for leave encashment. Check sanction and debit in the leave account.
7. Check whether perks are being paid as per option exercised.
8. Check whether both husband and wife are being paid HRA and check whether quarters allotted to them either in AAI or in the organisation of the spouse.
9. Check any employee who has been allotted a house is being paid HRA. Check with policy.
10. In case of employees under suspension, check whether subsistence allowances is being paid as per the policy. Any change is supported by an order from the disciplinary authority.
11. Check the absentee statement and verify deduction for absence, EOL etc
12. Check the pay fixation on promotion etc.
13. Check whether recoveries made from all people who have been allotted a house.
14. Check the savings detail given by the employees. Whether proposed saving and actual savings are marked accordingly.
15. Check whether recovery is being done correctly for the staff car provided as per policy.
16. Check whether recoveries are made for loans and advances as per sanction order. Check whether there is any gap.
17. Check the cases of misc reimbursement like briefcase, handset, uniform etc find whether payment is done as per policy and necessary entries have been made in the appropriate records.
18. In case of transfers, check whether the employee has joined the new station and only after this the salary is drawn.
19. In case of Transfer TA bill check whether the bill has been submitted within the time frame prescribed in the policy.
20. Check whether the bill is supported by the original documents/invoices etc
21. Check whether the employee fulfils the requirement for payment of lump sum grant.
22. Check whether tickets were booked through office. If not whether reasonable.
23. Check whether TA advance drawn has been adjusted.
24. Check whether DA has been calculated as per entitlement.
25. Check whether the recoveries on account of PF, pension, income tax etc are being made correctly and are remitted to appropriate authorities in time.
26. Check whether loans and advances are being sanctioned and released as per entitlement and all the documents like agreement etc are executed by the employee.

27. In case of Car loan check whether necessary hypothecation has been done in favour of AAI by the employee.
28. In case of HBA, check whether payment released has been paid to the seller/builder and the proof has been submitted to the office.
29. In case of HBA check whether insurance as per policy has been taken and recovery made from the employee.
30. Check whether interest on loan is being calculated and recovered from the employee correctly.
31. In case of Tour claims, check whether the journey has been undertaken after proper approval by the competent authority and the claim is as per approval. In case any deviation is noticed, check whether supplementary approval has been obtained.
32. Check whether tickets and hotel room were booked through office as per policy.
33. Check whether DA has been correctly calculated in the TA bills.
34. In case of medical bill check whether payment is being made for the option exercised by the employee and within the limits as per policy.
35. Check whether life certificate obtained as per policy
36. Check whether the bill is supported by original cash memo.
37. In case consultancy is claimed, it is supported by the original receipt and reimbursement is as per policy.
38. Also check the chronic treatments are supported by the certificate given by the Medical officer of AAI and the medicines and tests mentioned in the certificate only are reimbursed.
39. Check whether the medical claims have been submitted within three months as per policy.
40. Check whether in case of indoor bills, the treatment has been taken from an empanelled hospital and credit facility approval was taken.
41. In case the treatment was taken from a non-empanelled hospital, check whether approval of medical committee exists and the payment is in line with the approval.
42. In case of retired employees check whether the minimum amount as per policy was deposited by the employee.
43. Check whether the original receipt for the deposited by the employee at the hospital is submitted by the employee while claiming reimbursement.

Chapter 11: CPF, Gratuity and Pension

The employees' contributory provident fund is managed by a trust formulated for this purpose. Secretary to the trust is the officer in charge of the section and renders all assistance to the trust. He is also responsible for implementing the decisions taken by the trust. The day to day functions like maintenance of individual accounts, management of cash flow, investment of funds, payment of loans and advances and settlement of account are carried out by the CPF Section. The audit of the trust accounts are done by the Chartered Account appointed for this purpose.

Similarly, the Gratuity is managed by a separate trust formed for this purpose. Investment of funds, release of gratuity to the officers etc are done by this trust. This is also audited by a Chartered Accountant.

Pension section is involved with the remittances of pension contribution to the EPFO, processing the individual pension applications and sending it to EPFO etc.

Activities covered:

- Deposit of CPF contribution to the Trust
- Investment of Funds
- Management of cash flow
- Receipt of interest due on investments
- Receipt of maturity proceeds from investments
- Loans and Advances to subscribers
- Maintenance of Accounts
- Issue of individual PF statements
- Final settlement of accounts
- Deposit of pension contribution with EPFO
- Processing of individual claims
- Investment of Gratuity funds
- Settlement of gratuity claims

Records to be reviewed:

- Monthly accretions statement
- Investment register
- De-mat Account of investments
- Guidelines on investment of funds
- Members' Accounts
- Accounts of PF Trust

- D-mat Account, Bonds etc. Relating Document & Accounting Records.
- Loans and Advances records
- Panel of arrangers

Points to be seen:

Employees Provident Fund:

1. Verify whether CPF accretions are correctly calculated and claimed from AAI
2. Check whether Investment of funds is carried out regularly
3. Verify whether all the interest due on investments were received in time.
4. Check whether investments are carried out as per the procedure laid down.
5. Verify whether maturity proceeds of the investment were realised in time.
6. Check whether Cash flow Statement is prepared before investing.
7. Analyse whether any funds were kept idle or not.
8. Check whether the proportion of various securities as prescribed in the guidelines are maintained.
9. Check whether investment is being done only in eligible securities.
10. Check whether all securities are available in the de-mat account.
11. Physically verify fixed deposits if any.
12. Verify whether the individual accounts are updated in time.
13. Check whether all records required as per EPFO guidelines are maintained and up to date.
14. Check whether employer's contribution is correctly calculated and credited in the accounts.
15. Verify whether interest during the year is estimated correctly and informed to the trust.
16. Check whether the interest rate approved by the trust is applied.
17. Check whether the trust meetings are held as per requirement.
18. Test check whether the nominee details are updated.
19. Verify whether the individual account statements are prepared and distributed to the members in time.
20. Verify whether all the returns as required by EPFO are sent in time.
21. Test check the options for pension (A or B) are correctly noted and recovery is being done accordingly.
22. Check whether the contributions of the officers on deputation are received regularly and accounted for in the accounts.
23. Check whether adhoc interest rate is approved by the trust and applied for the current year settlements.
24. Pension contributions are stopped at 58 yrs unless opted otherwise
25. Check whether BRS is being prepared regularly.
26. Test check payments and receipts in the books.
27. Check whether investments are done through empanelled arrangers

28. Check whether refundable advance are granted only for the specified purpose and as per entitlement.
29. Verify whether the loans are being recovered regularly
30. Check whether Interest on loan is recovered after the full recovery of loan as per rule.
31. Verify whether part final withdrawal is granted only for the specified purpose
32. Check whether the withdrawals are restricted to entitlement
33. Test check the documents obtained and scrutinize
34. Check wherever applicable the withdrawal is released in instalments within the sanctioned amount.
35. Check Whether the details of sanction are entered in the individual's account
36. Verify whether In the case of withdrawal for HBA, the payments are released based on the report of the inspection committee.
37. Test check and identify any delays in the disposal of loan application
38. Verify whether the final payments are settled on the adhoc interest rate approved by the trust for the current year.
39. Verify whether the final settlement is done in time. Identify delays if any.
40. Check whether interest is allowed only up to 3 years in the case of inactive ECPF accounts.
41. Check whether the difference due to the employees after the approval of interest rate for the previous year is released (Approved interest rate – adhoc interest rate)
42. Verify whether the balances of employees joining other organisations are being transferred in time.
43. Check whether the income and expenditure account of the EPF trust is being prepared in time and is being approved by the trust.
44. Also ensure that the accounts are audited and the observations if any are attended to.
45. Prompt action is taken on the issues raised during the audit by the EPFO.
46. Verify whether corrective action is taken to ensure that lapses pointed out by the EPFO are not repeated.
47. Check whether the amounts payable/receivable to/from AAI are reconciled.
48. Ensure that there are no un reconciled balance in the accounts.

GRATUITY:

1. Check whether actuarial valuation of Gratuity liability is being carried out.
2. Verify whether the additional amount required based on the actuarial valuation is received from AAI.
3. Verify whether the amount received is invested in the various schemes as approved by the Board of the Trust.

4. Is the performance of investment is being reviewed regularly and brought to the knowledge of the Trust/management.
5. Check whether further action is taken, as decided by the trust.
6. Check whether the insurance policy for the gratuity for the remaining years (death cases) is current and renewed in time.
7. Nomination of the officials are available
8. Verify whether any delays are there in settlement of claims
9. Tests check the calculations for the remaining service gratuity in case of death cases.
10. Verify whether payments are released after obtaining vigilance and IR clearance.
11. Check whether the interest on delayed payments is made as per the policy and approval.
12. Check whether the gratuity accounts are prepared in time and put up for approval of the trust.
13. Analyse the reasons for the delay in specific cases and suggest remedies
14. Review the pending cases

Pension:

1. Test check whether the pension contribution is correctly made as per option and is remitted to the EPFO in time
2. Verify whether required records are maintained
3. Check whether the pension cases received from HR are processed and sent to the EPFO in time
4. Verify whether co ordination with HR is being done to avoid any delays.
5. Test check the calculation for the pension due
6. Analyse the pending issues if any with the EPFO

Chapter 12: Financial Concurrence

The financial concurrence is required for all proposals having financial implications except those covered under chapter-3 & 4 of Delegation of Power.

The financial concurrence is required at two stages: -

1. AA & ES
2. Award of Work

AA & ES

The AA & ES is required for the proposals of capital in nature and special repairs. The Audit procedure in this respect is as under: -

- Cost estimates are as per Manual/ Technical Instruction/ Circulars issued from time to time.
- The scope of the work in the proposal has been approved by the Competent Authority as per DOP.
- If the proposal is for new facility, which will cause recurring expenditure in the future the same has been indicated clearly and the revenue budget is identified therefore.
- The basis for preliminary estimates like DSR rates, market rates etc. has been indicated and documents for market rates, budgetary quotations etc. linked.
- The budgetary quotation has been obtained from more than one party and average of the same is considered for estimates. The abnormally low and high budgetary quotes need to be ignored for average purpose.
- The basis of estimates like custom duty, freight and insurance, packing and forwarding charges GST, foreign exchange conversion rates etc. has been indicated and linked wherever necessary.
- In case of import of equipment's, etc. the concessional customs duty as per Customs Notification of the Government has been considered.
- The proposal for a composite work/ project including all the components related to the scheme e.g. civil & electrical works, equipment's, etc. has not been split up.
- Certain loadings on adhoc basis like Disturbed Area, working within operational area have been provided appropriately as per clause no..... of the works manual.
- Budget head for the proposed scheme in the approved Capital Budget (Commitment) has been identified and the entire funds are available under the head in the year.

- If insufficient or no funds are available for the scheme proposed, necessary re-appropriation of funds has been proposed from the Capital Budget (Commitment) as per applicable DOP.
- Funds are identified/ available in the head from where the re-appropriation of funds has been proposed, as per applicable DOP.
- In case, funds are proposed to be re-appropriated from the budget provisions of other Directorates/ Airports, the concurrence of the concerned directorate has been obtained.
- Re-appropriation of funds has been approved by the competent authority as per the DOP.
- In case of a new facility, the requirement of additional manpower and the financial implication thereof has been considered. In case additional manpower is considered in the proposal, the necessary approval of the Directorate of HR is placed in the file.
- In case the proposal is for creating a new revenue generating facility, the IRR has been calculated.
- In case, the proposal is in replacement of the existing assets, the survey reports of the existing assets have been duly prepared and approved by the competent authority as per the DOP.

Acceptance Of Offers/ Award Of Work

- Availability of AA & ES for Capital & Special repairs works/ procurement.
- If the current proposal for award of work or procurement is a part of total AA & ES, the concerned directorate shall confirm and ensure that the total expenditure incurred or committed in the proposal is within the approved AA & ES amount.
- Technical Sanction has already been issued by the competent authority.
- In case the scope of work has been revised at NIT stage, the revised AA & ES & TS has been obtained.
- Technical Sanction does not exceed by more than 10% of the amount of the corresponding amount in the AA & ES. In case any specific mode of procurement process is indicated while seeking AA & ES, the same has to be maintained.
- In case of limited tender, Para 2.16 & 2.17 of DOP have been followed.
- The documents & terms and conditions of NIT are the standard Documents of the AAI and are approved by the competent authority. Any deviation from the standard NIT/ works manual has been brought out clearly by the concerned directorate and approval of the competent authority obtained after bringing out the reasons therefor.
- The NIT is in line/ accordance with the TS issued by the competent authority.

- NIT contains the provision relating to Purchase Preference to Central Public Sector Enterprises (CPSEs) as directed by the government of India from time to time.
- Justified cost was prepared, kept in a sealed cover and has been opened at the time of opening of the tenders.
- The bids have been opened by a duly constituted tender opening committee, which included a representative from the Directorate of Finance.
- The Earnest Money Deposit (EMD) has been submitted by the bidders as per the terms of the NIT.
- The tenders have been opened on the date and time as scheduled in the NIT.
- Bids not complying with the NIT terms and conditions have been rejected by the competent authority.
- In case of any dispute/ clarification on the interpretation of the terms and conditions the case has to be referred to Legal/ Law Dept. before referring the file to the department of Finance for concurrence.
- The Technical Evaluation committee has been duly constituted for evaluation of the tenders.
- Any technical relaxation proposed at any stage has been given to all the bidders uniformly and this has not affected the comparative position/ competitiveness of the offers.
- The recommendations of the Technical Evaluation committee have been approved by the competent authority as per the DOP.
- Price bids of the technically qualified offers have been opened by the duly constituted price bid opening committee after the approval of the competent authority for doing so (in case of two bid, techno-commercial-system).
- All pages of both Technical & Commercial price bids are signed by the respective tender opening committee members and any corrections, over-writings, insertions, deletions, etc. have been identified and the no of corrections etc. indicated on each page of the offers as per the works manual.
- The unconditional discount, if any, has been considered in the Price Comparative Statement. A Price Comparative Statement has been prepared by the concerned directorate showing the comparison of the offers as intended in the NIT.
- The Comparative Statement has been signed by a competent officer of the concerned directorate. The arithmetical accuracy of the offers and the Comparative Statement have been checked and found correct.
- Wherever the variation is more than 5% to 10% reasons for wide difference between the estimated cost, the justified cost and the quoted amount has been brought out to the notice of the competent authority. In case the lowest offered amount, other than the statutory increases, exceed the corresponding AA & ES

amount by more than 10%. Revised AA & ES has been proposed and placed in the file for approval.

- Budget head for the proposed scheme in the approved Capital Budget (Expenditure) has been identified. Phasing to Expenditure has been indicated and funds identified accordingly in the current approved Capital Budget (Expenditure).
- In case the proposal is for a Deposit Work to be executed by the AAI, necessary sanction and funds have been received from the client as per the MOU with them, etc.
- The offer of the lowest bidder normally does not exceed more than 5% of the justified cost.
- In case the lowest offer exceeds 5% of the justified cost, negotiation has been proposed to bring down the price to a reasonable level.
- In case of import of equipment's, etc. the concessional customs duty as per the Customs Notification of the Government has been considered.
- In case the proposal involves Foreign Exchange (FE) content, the concerned directorate to ensure that the Chairman's approval would be obtained for the foreign exchange outgo involved in the proposal.
- The concerned directorate has confirmed that the provisions in the Technical Instructions have been complied with. The concerned directorate has confirmed that the Central Vigilance Commission (CVC)'s guidelines issued from time to time have been followed.
- In case, the proposed scheme is partly or fully supported/ financed by some agency, for example, the North Eastern council, State Government, Foreign agencies, the same has been clearly brought out by the concerned directorate.

Chapter 13: Payment of Engineering Works Bills/ Accounts

The Internal Audit of engineering works bills covers adherence to policies and guidelines for payments and accounting of bills pertaining to engineering works and also adherence to provisions of the Works Manual, DOP and any other instructions in this connection.

A. Activities to be covered

- (i) Payment for contractor's bills
- (ii) Accounting for payments
- (iii) Recoveries for security deposit, advances, penalties and for any other reason
- (iv) Working for payment of extra items
- (v) TDS recoveries and deposit thereof

B. Records to be reviewed

- (i) Work orders for Contract Agreement, Deposit Works
- (ii) Measurement books for works
- (iii) Completion certificate for the work
- (iv) Approval for deviations/ extra items
- (v) Contractor's Ledger
- (vi) Site Order Book
- (vii) Approval for extension of time
- (viii) Bank Guarantee submitted as security deposit and confirmation by the bank
- (ix) Works Ledger

AUDIT PROCEDURE

I. Preparation of Works Bills

- (i) The bills are prepared and submitted in the prescribed format in view of the GST era.
- (ii) The contractor has signed the bills as well as measurement book as a token of acceptance of the measurements.
- (iii) The engineer in-charge has certified the bills and passed the bills for payment.
- (iv) It contains all the details like reference to the name of the work, name of the contractor, authority for the work (AA&ES No.), agreement/ work order no. and date, date of commencement of the work, schedule date of completion of

work, total sanctioned amount, no. of running bills, amounts so far sanctioned for payment, page no. of measurement book in which the measurement has been recorded etc.

- (v) Reference to the previous running bill is given and figures taken from the previous bill are verified to see that previous payments are correctly adjusted.
- (vi) Calculations in the measurement books are checked for arithmetical accuracy.
- (vii) Quantities shown in the detailed measurement are correctly carried over to the abstract both with regard to the quantities and description and the abstract in the measurement book has been correctly transcribed on the bill.
- (viii) Measurements have been accepted by the contractor. For measurements accepted under protest, the details should be entered in the measurement book and should accompany the bill.
- (ix) Correction to measurements is attested by the contractor and AAI officers.
- (x) The bill should be submitted along with measurement book in which all materials supplied to the contractor, wherever chargeable to the work/contractor, are recorded. The cost of stores/ materials supplied to the contractor are as specified in the Contract Agreement, cost of stores/ materials issued but not provided for in the agreement should be recovered at rates approved by the competent authority along with the departmental charges.
- (xi) Other recoveries to be made from the contractor on account of electricity, water charges, supply of any other items are made as per the terms of the contract.
- (xii) Deduction towards security deposit is correctly made from the bills.
- (xiii) Recovery of mobilization advance provided if, any, is made.
- (xiv) For secured advances provided against material brought to site and account for adjustment is attached with the bill and the amount correctly adjusted.
- (xv) Recovery for Income Tax/ WCT/ GST or any other applicable Tax is made correctly.
- (xvi) The time allowed for execution of the (control) work as entered in the Contract Agreement should be strictly observed. If the work has been extended beyond the time mentioned, the necessary approval for extension of time from the competent authority should be obtained. The accepting authority of the contract is the authority competent to grant extension of time. Extension of time should be granted without prejudice to the right of the Authority (AAI) to recover liquidated damages in accordance with the provisions of the Contract Agreement and to safeguard the interest of the Authority against unforeseen circumstances.

- (xvii) In absence of necessary approval for extension of time from the Competent Authority, penalty/ compensation and once it is levied shall not be changed/ reduced without the approval and financial concurrence.
- (xviii) All detailed measurements recorded in the measurement books should be cancelled by neatly scoring out at the time of authorizing the bill for payment.

II. Payment of Contractors' Bills, Other Bills and Contractors' Ledger.

- (i) There is no delay in checking and passing of the bills. Section 22.3 of the Works Manual may be adhered to for payments of bills.
- (ii) All payments in AAI have to be made through ERP – SAP system only. Therefore, all payments to contractors/ agencies shall be processed through the SAP system. The proper procedure to be followed as per Section 27 of the AAI Works Manual.
- (iii) Recoveries on account of advance payments including secured advances and supplies are made promptly as well as correctly. In case of payments without measurements the required certificate is recorded and its subsequent adjustments are properly shown in the bills (Para 23 of the Works Manual).
- (iv) Miscellaneous recoveries including hire charges for tools and plant and deductions for various taxes are effected correctly as per Works Manual and the recoveries on account of court attachment, wherever made, have been duly remitted.
- (v) Recovery of license fee of land allotted during the contract period is made correctly and as per rates applicable on year to year basis.
- (vi) Variations between the quantities of the bill and those shown in the agreement are adequately explained.
- (vii) Check details shown in the memorandum of payments, with the postings in contractor's ledger and review that the contractors' ledger has been maintained properly as per Works Manual.
- (viii) Penalties wherever liveable have been duly levied.
- (ix) Extension of time is covered by the sanction of the competent authority.
- (x) Extra items are paid as per the schedule of rates and if no schedule of rates is available rates are approved by the competent authority after financial concurrence.
- (xi) All the conditions of the contract are implemented by the executing divisions.
- (xii) For measurements recorded in measurement books, instructions for recording measurements are observed.
- (xiii) Corrections are duly attested and do not reveal possibility of any fraud.
- (xiv) Payments of advances to contractors are as per conditions of agreement.
- (xv) Scrutinize the material at site accounts, if any stores are kept at sites.

III. Additional Checks to be exercised on Final Bills

It should be seen that:

- (i) Actual date of completion of the work is shown on the bill and measurement book.
- (ii) Contractor accepts the net amount in full and final settlement of all his claims.
- (iii) Work completion statement certificate is attached with the bill in the prescribed format.
- (iv) Work completion statement/ deviation statement giving the reasons for item wise variation in the value of the work as executed from the value as per agreement is attached along with sanction as per the delegation of power.
- (v) Compare the rates for extra items/ substituted items with the schedule of rates and if no schedule of rates is available, the rates charged should have approval of the competent authority and financial concurrence.
- (vi) That the check list to be attached with the bill by the engineer-in-charge is answered and necessary certification made.
- (vii) Execution of work in accordance with the terms and conditions, schedules, specifications etc. forming a part of the agreement.
- (viii) Personal inspection of the work and test check of measurements carried out.
- (ix) Correct billing of measurement recorded in the measurement book.
- (x) Recovery in respect of materials, stores etc. supplied is correctly made.
- (xi) Clearance of all outstanding/ demands are furnished.
- (xii) The theoretical consumption statement for materials showing quantity of cement, stores required is issuing, actually issuing and the quantity used/ utilized and the work duly signed by the contractor and engineer in charge is attached with the bill. It should be seen that the quantity of materials issued and consumed on the work are not more than the quantity worked out on theoretical data including the prescribed percentage towards the wastage allowance. The excess quantity consumed or the use of less quantity of cement than the quantity arrived at on the basis of theoretical data, recovery/ deduction should be effected at the prescribed rates.
- (xiii) The work is completed within the time specified in the Agreement and if not, necessary extension of time is granted by the Competent Authority. In case of a contract awarded to contractor other than the lowest tenderer, entirely on consideration of time preference, it should be seen that the extension of time is granted after due concurrence by Department of Finance.
- (xiv) The security deposit based on the final increased value is recovered and in case of BG produced towards security deposits, it covers the defects, liability period after the date of completion.

- (xv) The contractor has given an unconditional discharge on the bill and stamped acknowledgement on the bill is available on the original bill for gross value and “No Claim” or “No Demand” certificate is furnished by the contractor.

IV. Deposit Works

Deposit works are carried out by the Authority on behalf of others and by others on behalf of the Authority. In both the cases, check the following points:

-

- (i) The approval of the competent authority, terms and conditions of or regulating the payment/ receipts, nature of the work, nature of the party i.e. government, State Government PSU, etc.
- (ii) Submission of physical and financial progress and accounts for receiving/ making the progressive payments, if any.
- (iii) Accounting of deposits under proper heads of account-advances, transfer to work in progress as per the progress report.
- (iv) Final settlement as per the terms and conditions, recovery if any for noncompliance, status of the work with reference to the time for completion of the work.
- (v) Completion report, handing over and taking over reports, recovery or refund of final dues.
- (vi) Capitalization entries as per the capitalization policy.
- (vii) Departmental charges are loaded and collected as per appendix 16 of the Works Manual.

V. Secured Advance Bills

Secure advance up to an amount not exceeding 75% of the value of the material brought at site for incorporation in the work or 75% of the material cost in the tendered rate of the finished items of the work, whichever is lower, to be paid to the contractor under running account bill: -

- (i) The claim is preferred in the prescribed running account bill.
- (ii) The bill is duly recommended by the engineer in charge and the value is assessed by him.
- (iii) It is certified that the materials have been brought to site and measured but not incorporated into the work.
- (iv) Material is adequately stored, protected and insured against damage by weather or other causes.

VI. Security Deposits/ Earnest Money Deposits/BGs

- (i) Earnest money and security deposits have been deposited by the contractors in accordance with the Works Manual and the conditions of the contract and entered in the relevant registers.
- (ii) Only approved paper securities are accepted i.e. BG/ FDR.
- (iii) Security deposits are released after satisfactory completion of the work, expiry of defects liability period and order of the engineer in charge.
- (iv) The Engineer in charge issues a “No Due Certificate” and a list of recoveries to be made from the contractors.
- (v) All the known dues are recovered before releasing the security. (For this purpose various ledgers/ registers in the section should be reviewed).
- (vi) The paper securities kept in the custody of the officer authorized for this purpose are physically available, the register of securities is kept up to date and timely action is taken to obtain the bank guarantees, wherever necessary.
- (vii) Timely action for extension of BG/ FDR is obtained whenever required.

VII. Miscellaneous Expenditure Bill

- (i) It is on the prescribed form.
- (ii) The bill has been signed by the Engineer In-Charge of the work.
- (iii) The work order or purchase order is furnished in support and a reference to the work order or purchase order is made on the bill.
- (iv) The expenditure or other purchase in question has been approved by the Competent Authority.
- (v) The supporting vouchers/ invoices of the supplier have been furnished.
- (vi) The material has been taken on charge and a certificate is endorsed by the Senior Engineer giving page number of the stock register on which it has been taken on charge. Test check entries in the stock register.
- (vii) The material ordered is of such a nature that the ordering has to be done by the engineering department.

VIII. Works Accounting

All payments in AAI have to be made through ERP SAP System only. The following steps need to be taken: -

- (i) Project is to be created with WBS element as per A/A & E/S breakdown structure (Transaction Code CJ20N).

- (ii) After creation of the project in ERP System, this has to be linked with fund centre.
- (iii) After linking the fund centre, the project needs to be released (Transaction Code CJ20N).
- (iv) As soon as works is awarded, the vender name is to be created.
- (v) ZCONVP documents are prepared and contract is to be created with Transaction Code ZCONVP.
- (vi) Once a contract is created in the ERP System and allotted a transaction Code, the purchase order shall be prepared with the transaction code (PONNO is required to be noted for future purposes).
- (vii) On submission of bill by vender, MIGO (transaction code) is processed.
- (viii) After completion of MIGO process, financial transaction (transaction code MIR7) is to be executed.
- (ix) Once MIR7 executed invoice document no. is created and the bill is parked and hard copy of the bill is to be sent to the department of finance with invoice document no. and accounting document no. for release of payment.
- (x) In maintenance work, project is not created and final flow is through cost centre of the station.

The following things need to be seen further for project works accounting: -

- (i) Works ledger is being maintained properly and entries in the ledger should be checked from various relevant documents.
- (ii) A completion report is submitted as soon as a work is completed and delays are brought to the notice of the executive.
- (iii) On receipt of intimation of completion of work from the executive the expenditure is capitalized and depreciation is charged from the relevant date.
- (iv) Posting are made in the property register regularly for capitalization, depreciation and retirement of assets.
- (v) Deviations from the sanctioned cost are within the limits prescribed.
- (vi) Select a few completed works for detailed scrutiny correlate the expenditure with the physical achievement. Any peculiar feature coming to notice may be specially investigated.
- (vii) Issue Vouchers are posted in correct heads of account. The capital and revenue expenditure statements are correctly prepared on the due dates. Critically examine physical progress of the expenditure and bring out cases of disproportionate physical progress in relation to the capital expenditure.

IX. General

To Review the procedure for preparation of revenue budget and capital budget-see that: -

- (i) Details are kept for amounts provided for as lump-sum amount for capital works and also the amounts provided for in the revenue budget for various works and the required approval had been taken before inclusion in the requirements of funds in the budget.
- (ii) Verify whether the register of contracts is maintained in the section and whether the original contract documents and the tender papers are kept in proper custody.
- (iii) There are no long outstanding entries for items of subsidiary registers or ledgers for suspense heads.

Chapter 14: Assets Accounts

Internal audit of assets accounting is done to ensure that assets of the authority are reflected at correct values in the accounts. Capitalization policy of the authority is adhered while capitalizing assets. Availability of assets is ensured through a process of physical verification at regular interval. Depreciation is provided at correct rates. Assets are removed from the assets account when a decision is taken to discard/ dispose the assets. Accounting Standards of ICAI for accounting of assets, impairment of assets etc. are complied with. Also provisions of DOP or any other instruction in this connection are adhered to.

A. Activities to be covered

- (i) Accounting adjustments for capitalization
- (ii) Maintenance of Fixed Assets Register
- (iii) Depreciation charged on assets and rates
- (iv) Discarding/ disposal of assets
- (v) Physical verification of assets

B. Records to be reviewed

- (i) Capitalization policy of the Authority
- (ii) Classification of assets by the Authority for accounting
- (iii) Policy on condemnation of assets

Audit Procedure

I. Capitalization of Assets

- (i) Fixed assets are accounted correctly as per invoices and include all Costs and Taxes.
- (ii) Apportionment of expenditure of project office is correctly made to various schemes implemented during the year.
- (iii) Expenditure like shifting of overhead cables/ underground cables which have not created new assets is charged to revenue.

- (iv) Expenditure on revenue account like repairs and maintenance, renewals etc. is not charged to capital accounts and vice versa.
- (v) Test check completion, commissioning reports for plant equipment etc.
- (vi) Assets and loose tools below the specified limit are charged to revenue.
- (vii) Expenditure on procurement of CISF ARMS and Ammunitions is charged to revenue.
- (viii) Verify that ownership of assets such as land and building, vehicles etc. are clear and free from encumbrances. Examine the title deed and all relevant documents relating to titles.

II. Fixed Assets Register and Physical Verification of Assets

- (i) Complete details of assets are recorded in fixed assets register.
- (ii) Verify that location of assets as well as codification of assets has been done.
- (iii) Entries in the registers reconcile with general ledger balance. Comments on variations in entries in fixed assets register and entries as per general ledger.
- (iv) Physical verification of assets is done as per the policy of AAI annually, once in two years or once in three years.
- (v) A committee consisting of one member from user department and one member from other department and one member from finance department does physical verification of assets and certifies that: -
 - (a) The assets are in serviceable condition.
 - (b) For unserviceable assets immediate survey action is taken.
 - (c) For assets found missing action is taken for write off.
- (vi) Items physically verified are reconciled with entries as per the register. In case of variation review action taken for location of assets.
- (vii) Comment on follow up action taken for items found short on physical verification.
- (viii) Conduct physical verification of few items on surprise basis and comment.

III. Disposal of Assets

- (i) Adjustments in case of assets transferred from one Region/ Airport to another and vice versa, sold or disposed off are correctly recorded in the books and supported by relevant papers i.e. Transfer Voucher, E – Bill, copy of Survey Committee Reports sanctioned for transfer/ sale/ disposal and other connected papers.
- (ii) Check that a robust system exists for reporting of Transfer/ Disposal/ Sales of Assets to Finance Department for passing accounting entries in the books of accounts.
- (iii) For assets with small volume like chairs, electrical items of computers etc. which are disposed along with scrap items containing misc. items, check that accounting adjustments for assets items are passed correctly.
- (iv) Accounting adjustment towards profit or loss on sale of fixed assets, removal from Gross Block and accumulated depreciation are correctly made.
- (v) Review sale of fixed assets such as crafts or otherwise, justification for sale, accounting for depreciation, and cancellation of AMC in respect of assets sold etc.

IV. Miscellaneous

- (i) Test check depreciation for correctness of rates etc.
- (ii) What are the reasons for underutilization/ non-utilization of assets?
- (iii) Comment on unconnected asset items if available at the station.
- (iv) Comment on assets where there is an indication of impairment based on internal/ external factors and adjustment entry for impairment loss is recognized where carrying amount of the asset exceeds its recoverable amount.
- (v) Unserviceable assets/ assets pending disposable assets are reflected separately in the books of accounts.

Chapter 15: Bank and Cash Transactions and Imprest Account

The verification of bank and cash transactions is one of the major functions of internal audit. During the audit the following may be ensured.

A. Area to be covered

- (i) Maintenance of Cash Book
- (ii) Receipts and payments
- (iii) Bank Reconciliation
- (iv) Status of Bank Guarantees
- (v) Status of Fixed Deposit Receipts
- (vi) Authorization for cheques signing
- (vii) Recoupment of Imprest
- (viii) Reconciliation of Term Deposits of Flexi Deposit A/C.

B. Records to be reviewed

- (i) Cash and Bank Book
- (ii) Receipt Book
- (iii) Imprest cash book of imprest holders
- (iv) Bank Statement
- (v) Unlinked debits and credits by bank
- (vi) Unpaid Register / Details
- (vii) Records of e-payments
- (viii) List of authorized signatories
- (ix) Register of Bank Guarantees (BG)
- (x) Register of Fixed Deposit Receipt (FDR)
- (xi) Departmental Advance Register
- (xii) Imprest Cash Book
- (xiii) Issuance of Bonds & their Accountings.
- (xiv) Mode of BG as per latest guidelines to the concern Authority (Electronics etc.)

The following two Bank Accounts are opened at each airport/ SAU:

1. Disbursement Account
2. Collection Account/ Revenue Account

Disbursement Account:

Zero balance account have been opened at all the SAU's/ Airports with State Bank of India or any other Bank with a fixed daily OD limit as per the account of airport. The airports are allowed to make payment on daily basis within the prescribed limit and same amount is swiped from CHQ Account to make the balance zero at the end of the day.

Collection Account:

Collection account at the airport is directly connected with the CHQ Bank and amount thus collected with the Revenue/ Collection Account is swiped to the Central Revenue Account of CHQ.

Procedure of Disbursement:

The payment voucher is prepared through SAP-ERP and is forwarded to Bank section for payment purpose, which is then uploaded to SBI Portal through internet banking. The payment is then approved by the finance officer as per the power delegated. The payment is then transferred directly to the bank account of the party/ vender as the case may be through NEFT/ RTGS.

After the introduction of Host to Host System, which has already been operative at most of the airports the manual upholding of the payment in the Banks portal shall not be required and payment shall be automatically uploaded once the payment voucher is made through the SAP-ERP system.

C. Audit Procedure**I. Review of bank books**

- a) Bank reconciliation is done promptly and adjustments are carried out in books.
- b) Stale cheques as well as cancelled cheques are written back promptly.
- c) The register of cancelled cheques is properly maintained.
- d) The register of cheques/ drafts received is maintained properly, and there is no delay in deposit in the bank as well as realization of cheques/ drafts.
- e) Totals of the Bank Books and Cheques Drawn Register are correctly carried forward each day.
- f) Review system of joint signatures of cheques.
- g) Counter foils of cheques and receipt books are kept in proper custody.
- h) Verify unused cheques books and numerical sequence with reference to the stock register.

II. Payments through ECS

E Payments are made in the following modes:

- NEFT (National Electronic Fund Transfer)
- RTGS (Real Time Gross Settlement)

In both the cases i.e. NEFT and RTGS payments could be on-line as well as offline. On-line payment is authorized by an authorizer directly through Internet and the amounts are credited to the account of party. For offline ECS payment that is NEFT and RTGS, a statement is sent to bank manually or electronically for credit of amount to the respective account.

a) For review of online ECS payments - see that

- The administrator authorizes the individual officers who could make payment through Internet banking system. Review authorizations made by the administrator to see that the amount which could be paid by an official jointly or solely as per authorization is as per the amount approved by the competent authority.
- The party details have been entered in the system by an authorized person only and have been verified and approved by the authorizer. A register is maintained to keep records of all the parties whose names have been fed into the system.
- All the additions/changes in authorization are recorded in the register and approved by the competent authority.
- Daily opening and closing balances are recorded in a register and authenticated by the head of cash section.
- Verify bank account details in ECS system w.r.t. details given in application of funds under RTGS. These requests should bear signatures and seal of the banker.
- For rejected transfers credit is given by the bank automatically.
- A register is maintained for all payments authorized through ECS.

b) For Review of offline ECS payments - see that

- Statement authorizing payment is signed as per cheques signing authority.
- Amounts are debited to the AAI account on the same day.
- A register is maintained for all payments authorized through ECS.
- No Charges are levied by the bank for any kind transfer of fund (both for online and offline payments).
- All the payments sent through fax/mail are compared with the bank statement to see that these have been correctly effected by the bank and there is no deviation.
- A control of fax messages sent to bank is kept as banks may debit the amount twice if the same statement is faxed twice.
- Bank statement is compared with bank book on day-to-day basis.

III. Review of manual cash book

- a) Cash book is maintained in the prescribed format and vouching of cashbook is done on daily basis.
- b) Physical verification of cash balances with the cashier and imprest holders may be done.
- c) Check if any surprise check of cash has been conducted and comment.
- d) Review unpaid bills in hand, receipts not deposited in bank.
- e) The cash/bank books are written every day and are checked daily by the officer in charge of cash.
- f) Detailed vouching of cash/bank book should be done for the month/s selected and it should, inter alia, be seen that:
 - Receipts are issued by the authorized official supported by relevant counterfoils of receipts, cash receipt vouchers, pay-in-advice slips, and entries in the register of cheques/ drafts received etc.
 - Compliance with the provisions of the IT Act on ceiling of cash payments is seen.
 - Totals of the cash book register are correctly carried forward each day.
 - There are no unauthorized corrections and these have been duly attested.
 - Closing balances as per trial balance match with the balances as per cash book.
 - Cash balance report is prepared by the cashier every day and put up to the manager in-charge of cash for his signature.
 - Cash balance is physically verified by the officer in-charge of cash at least once a week and recorded in the cash book.
 - Surprise verification of cash by an officer other than the officer in charge of cash is done under the orders of the head of unit/finance and the results of such verification are recorded in the register maintained for the purpose.
 - Duplicate copies of the receipts and bank receipts/payment advice are sent to the sections concerned on daily basis to avoid delay in clearing cash receipt control account.
 - For cancelled receipts cancelled foils are kept pasted to the counterfoil and cancelled cheques are kept attached to the counterfoils.

IV. Regulation of Imprest Account

- (i) List of offices/ units entitled for keeping the imprest cash specifying the amount approved by the competent authority.
- (ii) The limit of the imprest amount is fixed based on the basis of average monthly actual expenditure of the previous year.
- (iii) The Officer-In-Charge granted imprest himself submits the account.

- (iv) Accounts are rendered on monthly basis within time schedule. Normally, not more than one advance should be outstanding before any further release.
- (v) Any amount disallowed at RHQ remains as advance till final settlement.
- (vi) Imprest accounts are supported by a statement in the following format.

Sl. No.	Particular	Amount Rs.
a)	Sanctioned Imprest (A) -----	
b)	Balance as on ----- a) in Cash b) with Bank	
c)	Expenditure during the period a) by Cash ----- b) through Bank/ Happay Card/ Debit Card	
d)	Account Pending with Regional Office ----- (Imprest Account submitted by the station which is in process of recoupment by Regional office).	
e)	Amount outstanding for want of sanction etc. (Any amount disallowed in the previous accounts submitted).	
f)	Total of b+c+d+e = Sanctioned Imprest (A)	
(vii)	For Non SAU Airports/ field units receiving funds on imprest recoupment basis, it should inter-alia be verified that:	
a.	Only expenditure for operation and maintenance like electricity, water charges, maintenance of vehicles, telephone, POL, maintenance of equipment, etc. which cannot wait submission of the claim and receipt of payments from Regional Offices are met from the imprest account.	
b.	Photostat copies of the bank pass book and bank reconciliation statement is attached with imprest account.	
(viii)	Imprest and departmental advances be verified in respect of the following:	
a.	Imprest cash book is written on day to day basis in the prescribed manner.	
b.	Competent Authority has approved payment of advance.	
c.	A Certificate is attached with the claim that enquires from not less than 3 parties were made and purchase was made on the lowest quoted rates and receipts have been entered in the stock book.	
d.	Examine the case where payments can be made by cheques/ Debit Card/ Imprest / advance accounts can be avoided.	
e.	Review cases of emergency purchase and point out cases where it can be avoided.	

- f. Verify that advances are adjusted immediately after the transactions are over and point out the cases of advances outstanding for more than three months.
- g. DOP of Spot Purchase should be used only in emergency cases and it should not be used frequently.

V. Review of other areas of cash section

- a) Review cash credit account to see that excess debit balances are not retained.
- b) Balances kept are not beyond the immediate requirements.
- c) Wherever system of automatic fund transfer has been implemented funds are transferred to Headquarters as per standing instructions.
- d) Surplus funds have been timely invested in accordance with the policy laid down by the Corporate Office.
- e) BGs/FDRs are kept in the custody of the cash section. These may also be physically verified with reference to the register.
- f) Rules regarding safe custody of cash/cash chests/ cash room are followed.
- g) Insurance policies for cash in transit and cash in chest are kept current.
- h) Review monthly cash forecast statements and cash flow statement for correctness and major variations.
- i) Review set up of Treasury section to ascertain sound internal control.
- j) The register of valuables (other than cheques/ drafts) is maintained.
- k) Review the accounting for stamps purchased issued and stock in hand.
- l) Excess/shortage noticed in cash is brought into books and adjusted after detailed investigation and approval of the competent authority.
- m) Lost and Found currencies and valuables are kept in safe custody and SOP needs to be followed.
- n) Proper reconciliation of remittances from field station to CHQ is made for CMS/ E-payments.

VI) Review of Payments –General

- a) See that payment authorized by a signatory is within his delegated power.
- b) Vouchers are numbered and defaced to prevent the same being used again and vouchers are passed and authorized for payment by the competent authority.
- c) Payments are accounted under proper account head.
- d) There is no delay in preparing cheques for payment.
- e) Payments are made in accordance with the due dates to avail cash discount wherever applicable.
- f) Cheques are dispatched promptly to the payee along with letter indicating details of the payments and there are no signed cheques lying awaiting dispatch.
- g) Authorization letters are obtained for cheques handed over to the authorized representative of the payee.

Chapter 16: Compilation of Accounts

The internal Audit of Compilation of accounts covers adherence to accounting Policies of the Authority, guidelines for preparation of vouchers, trail balance and reconciliation of accounts and ultimately financial statement i.e. Profit and Loss accounts, Balance Sheet & Cash Flow Statement etc.

A. Area to be covered

- (i.) Authorization of vouchers
- (ii.) Review of subsidiary records
- (iii.) Capitalization of assets
- (iv.) Action taken on assurances on inspection reports of Government Audit.
- (v.) Action taken on previous internal audit reports

B. Records to be reviewed

- (i.) Payment, receipt and journal vouchers
- (ii.) Trial Balance
 - Flexi and Term Deposit A/c.
- (iii.) Bank Reconciliation Statement
 - Fund Remittances (to and from)
- (iv.) Schedule to accounts
- (v.) Details of contingent liability
- (vi.) Revenue accounting

C. Audit Procedure

I. Scrutiny of Vouchers

- (i.) All the payment and receipt vouchers, journal vouchers are serially numbered; properly authorized by the designated/

competent authority; and incorporated in trial balance for the respective month.

(ii.) Test checks the journal vouchers prepared by the various sections with reference to the supporting documents, narration to voucher and link them with entries in the journal and ledger.

(iii.) Test checks the rectification JVs involving high amounts, say, more than Rs. 01 Lakh.

II. Review of Trial Balance and Scrutiny of Ledger:

- i. Irregular balances are not appearing under any head of account and prompt action is taken to rectify such balances.
- ii. Compilation section reviews the trial balance regularly for rectification of operation of wrong code heads and misclassification by different sections.
- iii. Trial balance contains all liabilities pertaining to the period. Schedules and link sheets are reconciled with the trial balance.
- iv. Appropriate records are built up for depreciation, etc. as required for income tax calculations.

III. Capitalization of Assets:

- (i.) Capitalization is carried out in terms of the Capitalization Policy of AAI hence the following points needs to be verified: -
 - a) Construction Works (Project) — Capitalization is done from the time the project is ready for intended use.
 - b) Equipment relating to Airport, Cargo, Security & It and CNS Equipment's not requiring Calibration: Capitalization is done from the date of installation, testing and commissioning.

- c) CNS Equipment's requiring Calibration — ILS, RADAR, VORs, ADS-B: To be capitalized from the date the flight calibration is completed as certified by FIU or immediately after 03 months from the date of installation as certified by DRC/ Suppliers whichever is earlier.
- (ii.) Part completion of works/ projects and put to use are capitalized based on the technical assessment.
- (iii.) Expenditure not represented by AAI assets is charged off as Revenue expenses.
- (iv.) Pre-project expenditure in case of abandoned works and expenditure incurred for foreclosed and abandoned works are charged off as Revenue expenses.
- (v.) Fixed Assets which have been fully depreciated, are shown at residual value of Re. 1/-.
- (vi.) Any non-monetary asset acquired from State Government free of cost is valued at nominal value of Re. 1/- for each type of asset.
- (vii.) Wherever land is sold/ transferred/ disposed-off and the specific value of such land is not available, it is valued at average cost of acquisition, except in cases where it is acquired free of cost.
- (viii.) Asset individually costing less than Rs. 5000/- are charged off to Revenue expenses.
- (ix.) Construction Period Expenses on Projects: -
- a) Direct revenue expenditure of exclusive Project Division handling capital projects are capitalized along with the completion cost of the works.
- b) The interest on mobilization advance in respect of project is set off against the project expenses.

- c) Interest on borrowings for projects is capitalized up to the date of capitalization.
- x) Special Repairs (applicable in respect of ongoing works as on 01/04/2017: -
 - a) Special Repair Works on Runways, Taxiways and Aprons etc. to restore Pavement Classification Number (PCN) value to their original level which may sometimes result in incidental increase in PCN is charged off to P&L A/c.
 - b) The expenditure on refurbishment of CFTs are treated as special repairs and charged off during the year of expenditure.
 - c) Initial expenditure on creation of RESA is treated as Capital expenditure and subsequent expenditure is charged off to P&L account.
- xi) Intangible Assets: -
 - (a) Computer Software (not being embedded software in the equipment) which is put to use and is expected to provide future enduring economic benefits is recognized as Intangible Assets and amortized on straight line basis over a period of five years or license period of the software whichever is earlier. However where such computer software is still in development stage, costs incurred during the development stage of such software are accounted as “Intangible Assets under Development”.
 - (b) Expenditure on Research & Development, other than on capital account, is charged to revenue.
- (xii.) Expenditure on Procurement of CISF ARMS and Ammunition for CISF are to be charged to revenue.

IV. Depreciation

- (i.) Depreciation on Fixed assets is calculated on a straight-line basis using the rates arrived at based on the useful lives estimated by the management.
- (ii.) Depreciation is charged at 100% in case assets are used in a financial year for 180 days or more where as if the assets are used for less than 180 days the depreciation will be equivalent to 50% of the depreciation of the financial year.
- (iii.) Depreciation on Temporary Buildings, Security Fencing and Intangible assets is charged at 100% irrespective of the number of days in use.
- (iv.) Lands taken on lease by AAI are amortized over the lease period and in case where the lease period is not available, such costs are amortized over a period of 60 years.

(V) Physical Verification of Fixed Assets

The Physical Verification of Fixed assets are carried out as under:-

Big Airports (including ATC centers/ Security/ Cargo units): Every 3 years.

Medium Airport: Every 2 years.

Small Airports (includes ACS, CHQ, CATC, RCDU, CRSD, FIU, EMO and RHQ (Administrative offices): Every Year.

(VI) Investments

Investments which are readily realizable and intended to be held for not more than one year from the date on which such investments are made are classified as Current Investments. All other investments are classified as long-term investments. Long term investments are

carried at cost. Provision is made for diminution other than temporary, in the value of such investments if any.

(VII) Sundry Debtors/ Trade Receivables

- (i.) Debt more than 1 year old recoverable from parties other than Govt.
- (ii.) Departments (including State Govt.) are considered doubtful and must be provided for.
- (iii.) In case where the matter has been referred to arbitration/ litigation/ disputed, necessary provision is made in the accounts irrespective of the period of debt.
- (iv.) Security Deposit not considered while making the provision for doubtful debt.
- (v.) In case of item which are very old and which in the opinion of the authority are not recoverable for any reason and legal action for recovery may not be possible or economical, action should be taken to write off such amount with the approval of AAI Board/ Member (Fin).

(VIII) Inventories

- (i.) Stock/ Spares consumed during the year are charged as revenue expenditure.
- (ii.) Stock at year end (except store/ spare with unit cost of Rs. 5000 and less) is valued at cost price on FIFO basis for a period of five years from the date of receipt. Thereafter the net realizable value is worked out as under and is shown at cost or net realizable value whichever is less:

6 th year	70% of the cost
7 th year	40% of the cost

8th year onwards 10% of the cost

- (iii.) Unconsumed stock of store/ spare as on 1.4.2005 is valued at 10% of the cost.

(IX) Deposits with Electricity Board

- (i.) See that interest bearing deposits are shown as deposited and the interest amount due is adjusted in the consumptions bills.
- (ii.) See that wherever the deposits are made for creation of assets, the same is accounted as per the items and conditions and charged of as per the policy.

(X) Deposits with others

- (i.) Action is taken to get the refund of deposits where they have become refundable.
- (ii.) For deposits where a portion is adjustable to expense head every year periodical adjustments are affected.
- (iii.) Deposits with P and T on account of installation of telephones under OYOT scheme are charged off to revenue in the year of making the deposit.

(XI) Deferred Tax

Deferred tax Liability/ Asset resulting from “timing difference” between book and taxable profit is accounted for considering the tax rates and laws that have been enacted or substantively enacted on the Balance Sheet date. The Deferred Tax Asset is recognized and carried forward only to the extent that there is a reasonable certainty that sufficient taxable income will be available in future against which such deferred tax assets can be realized.

(XII) Grants & Subsidies

- (i.) Grants/ Subsidies received from the Government and Foreign Financial Institutions for acquisition of assets under agreements approved by the Government are treated as Capital Grants.
- (ii.) Grants are deducted from the gross value of the assets in arriving at its book value.
- (iii.) Till the completion of the work Grant will be shown as a reduction from the WIP of the concerned work.
- (iv.) When the grant is equal to the cost of the asset, the asset is shown in the balance sheet at nominal value at Rs. 1/-.

(XIII) Liability/ Provision/ Sundry Creditors

- (i.) Liabilities created during earlier years are not lying outstanding under these heads without any valid reasons.
- (ii.) There are no items for which Liabilities have been created but subsequently un-dischargeable for any reasons. Action should be taken to adjust such items.
- (iii.) Whether the items have become time barred and whether the items could be adjusted to revenue.
- (iv.) No debit balance appears in any of these accounts. Immediate action should be taken to ensure that there has been no error in accounting resulting in debit balances and also to which the adjustment of these debit balances by recovery.
- (v.) Provisions made are justified and have to be continued and in no case there has been excess provision requiring to be written back in accounts.

(XIV) Foreign Currency Translation

- (i.) Transactions in foreign currency are recorded at the exchange rates prevailing at the date of transactions except the balance in Exchange Earners Foreign Currency Account which is accounted for at the rate prescribed for such Account.
- (ii.) Non-Monetary items denominated in foreign currency (such as Fixed Assets etc) are valued at the exchange rate prevailing on the date of transaction.
- (iii.) Monetary items denominated in foreign currencies (Loans, Cash, Bank Balances etc Outstanding at the end of reporting period, are translated at exchange rates prevailing as at the end of reporting date.
- (iv.) Any gains or losses arising due to differences in exchange rates at the time translation are accounted for in the statement of P&L either under the head foreign exchange fluctuation or interest cost as per the case.

(XV) Revenue Recognition

- (i.) Revenue is recognized as the services are rendered on accrual basis and is net of service tax/ GST.
- (ii.) Bills are raised at the time when and to the extent there is no Significant uncertainty as to its measure ability and ultimate realization.
- (iii.) In respect of cases under legal disputes/ PPE Act, Interest on delayed Payments, Cargo Demurrage charges (except where bills are raised on Airlines/ Agencies), Insurance Claims, Interest on Staff advances, etc. are accounted on receipt basis.
- (iv.) Custom Duty Exemption certificates received under 'Serve India Scheme' as well as EPCG Licenses are accounted as

income in the year of receipt. However unutilized portion of expired Scripts/

Licenses if any is charged off in the period in which the results are crystallized.

- (v.) In respect of Deposit Work undertaken by AAI, income accrued as departmental charges is accounted for on receipt/ lodging of the final claim.
- (vi.) Income and expenditure up to Rupees five lakhs in each case pertaining to previous years are accounted for in the current year.

(XVI) Post-Employment Benefits and Other Long Term Employee Benefits:

- (i.) AAI's Contribution to the Provident Fund and Pension Scheme is remitted to AAI, Employee Provident Fund Trust and Regional Provident Fund Commissioner, Ministry of Labor and Employment, Govt. of India respectively based on a fixed percentage of the eligible employee's Salary and charged to Statement of Profit and Loss.
- (ii.) AAI operates defined benefit plans for Gratuity. The cost of providing such defined benefits is determined using the projected unit credit method of actuarial valuation made at the end of the year and administered through respective Trusts. Actuarial gains/ losses are charged to Statement of profit and Loss.
- (iii.) Obligations on Compensated Absences, Welfare benefits, Post- Retirement medical benefits for retired employees and resettlement benefits are provided using the projected unit credit method of actuarial valuation made at the end of the year.

(XVII) Others

- (i.) The specific reserves are utilized as per utilization of specific reserves guidelines approved by Board.
- (ii.) Expenditure incurred on Procurement of arms for CISF is treated as revenue expenditure.
- (iii.) EMD/ Security Deposit more than three years old and not claimed are treated as miscellaneous income.

(XVIII) Review of Subsidiary Records

- (i.) Information required for reporting to Government, Corporate office or other agencies are properly compiled and submitted on due dates.
- (ii.) Accounts are prepared in the specific format approved by CAG; and accounting policies, accounting standard, etc. are complied with.
- (iii.) Report instances of non-compliance of accounting policies.

Chapter 17: General Administration

The Internal Audit of General Administration covers adherence to policies and guidelines for activities like postage, procurement and disbursement, booking of rail and air tickets, empanelment of hotels and booking of hotel accommodation, empanelment of hospitals, procurement of uniform, allotment of residential quarters etc. and also adherence to the provisions of DOP and any other instructions in this connection.

A. Activities to be covered:

- (i) System of hiring Taxis, booking rail and air tickets
- (ii) System of stationery procurement and distribution
- (iii) System of empanelment of Hotels
- (iv) System of empanelment of Hospitals
- (v) Allotment of Quarters

B. Records to be reviewed:

- (i) Postage account
- (ii) Taxi hiring Register
- (iii) Ticket booking Register
- (iv) Stationery Register
- (v) Uniform Register

C. Audit Procedure

The procedure involves checking and review of following records/ activities/ areas.

- (i) Postage account is properly maintained, postage on letters and parcels is verified by the officer in charge at least on a test check basis.
- (ii) Imprest cash for postage held by the dispatcher matches the postage register.
- (iii) Franking machine readings are recorded at the close of each day, test check dispatched letters as recorded in the register for any scope of leakage by way of misuse for private purpose.
- (iv) Arrangements for receipt of inward dak and its distribution to various departments specially the mail containing valuables like cheques, drafts etc. as also confidential dak is in order.
- (v) Where payments of electricity and water bills, are controlled in the Administration section, verify whether:-
 - a. Proper registers are maintained and entries are recorded therein as and when bills are passed for payment and forwarded to the Accounts section so as to guard against second payment.

- b. Meter readings are verified before the bills are passed for payment.
 - c. Comment on abnormal variations in the electricity bill.
- (vi) Where hiring of taxis and booking of rail and air tickets is the responsibility of the Administration department, verify that:
- a. There is a system of requisitions for purchase of rail/ air tickets for company executives/guests and also for hiring of taxis.
 - b. All such requisitions are entered in a register as and when bookings are made as per the entitlement.
 - c. Booking of air tickets for non-entitled employees are made on the strength of sanction of the competent authority.
 - d. Bills from travel agents are verified with reference to entries in the register and are noted therein.
 - e. Before passing the bill it is ensured that journeys against the tickets were performed by the officers concerned, otherwise the tickets were cancelled and credits were obtained.
- (vii) For hotel accommodation booked for employees as well as official guests of the company:
- a. Whether a register is maintained for such bookings and checks are exercised with reference to the entries in the register to ensure payments for bonafide bookings only.
 - b. For the company's guests authorization from the competent authority exists.
 - c. The agreement with the Travel Agent for hiring of Taxis and Rail and Air Ticket needs to be examined and commented and suggestion for improvement in this system.
- (viii) Where Administration section is responsible for purchase, custody and maintenance of miscellaneous assets comprising of furniture, office equipment electrical fittings to buildings, etc., verify that:
- a. Fixed assets register is maintained.
 - b. Physical verification is conducted periodically.
 - c. Discrepancies are reconciled promptly, action is taken to fix the responsibility for missing items and approval for write off of all unserviceable/lost items is obtained.
 - d. Unserviceable items are promptly disposed off.
 - e. For disposal of any asset item, the finance department is kept informed.
 - f. History sheets showing the date of purchase, cost, suppliers name, period of guarantee and the particulars of expenditure are maintained.
- (ix) For procurement and maintenance of office equipment, purchase of stationery and other items of office requirements (including furniture, fixture etc.) to verify:

- a. Policy, guidelines, eligibility for issue of various items.
 - b. Basis of procurement.
 - c. The Budget provision vis-à-vis the actual procurement.
 - d. Whether tendering procedure has been correctly followed.
 - e. Proposal for procurements are approved as per DOP.
 - f. Issues are made as per the eligibility criteria. Review delays in issue and items not issued and the comment. Comment on instance of delay in issue/usage resulting in the lapse of warranty period.
- (x) For Stock records- verify that the:
- a. Issues are authorised by a designated officer.
 - b. Signatures of the recipient with dates are obtained.
 - c. Replacement policy for office furniture etc.
 - d. Issue of furniture is need based.
 - e. The annual maintenance contracts of office equipment are renewed without any break with the manufacturer at negotiated rates.
- (xi) Hiring of leased accommodation-verify that:
- a. Whether sanctions are as per rules and within prescribed limits.
 - b. Relaxations if any are approved by the competent authority.
 - c. Standard terms and conditions of, lease agreements are followed.
 - d. Lease maintenance is paid as per rules, i.e. , not exceeding 2 months lease rent.
 - e. Legal vetting of agreement is duly done.
 - f. Refund of security deposit for accommodation is obtained immediately on vacation of accommodation by the employee concerned. Alternatively, the amount is recovered from the concerned employee.
- (xii) For in- Patient treatment see that
- a. Whether guidelines for empanelment of hospitals are issued to all the concerned regions/ units. A Committee consisting of representatives from Union/ Officers Association Guild, Officer in charge of Administration, Medical Officer, representative from Finance and one more senior officer from any discipline is constituted for visiting the Hospitals to check the facility and obtain tariff. The rates are negotiated by the committee. The rates of the Institutional Hospital should be taken as indicative in the absence of AIIMS rates.
 - b. Agreements are signed with empanelled hospitals and Tariff agreed upon. Printed tariff of the hospitals is seen to check reasonableness.
 - c. Treatment at non-empanelled hospital is approved on case to case basis.
 - d. Credit facility is provided by the hospital to the employees and dependents.
 - e. Timely intimation is received from the employee for admission in the hospital.

- f. Whether routine inspection is being carried in the empanelled hospitals.
- (xiii) Allotment of quarters to officers/ staff posted at HQ:
- Allotment of quarters is as per the eligibility and allotment rules.
 - Quarters do not remain vacant for an un-reasonable period of time.
 - Recovery for the licence fee as made at the latest applicable rates.
 - Recovery of electricity charges is based on actual metered consumption. Comment on cases of recovery on average basis due to defective meters.
 - Review rates for electricity consumption.
 - As far as possible direct electricity connection from the electricity board is taken for individual quarters and electricity bills are paid directly by the employee.
 - In case separate electricity meters are not provided to residential quarters recovery is at a rate not less than what is paid to the Electricity Board.
- (xiv) Hiring of Vehicles (wherever applicable) verify that:
- Procedure for empanelment of agencies for providing vehicle is in order.
 - Hiring of vehicles is done by following tendering procedure.
 - Requirement vis-a-vis availability of vehicles is assessed before hiring.
 - Approval of competent authority exists for vehicle hiring contracts.
 - Vehicles are provided to officers of AAI and of external agencies like Audit, Ministry etc. against the requisition slip approved by the competent authority.
 - Vehicle hiring charges bills are approved as per DOP and before passing on to finance rates, time and km covered etc are checked w.r.t. the contract.
 - See utilisation of shuttle vehicle for other purposes / officers.
- (xv) Empanelment of Hotels for accommodation purposes verify that:
- While empanelling, hotels of different categories, i.e. Three Star, Five Star, etc., have been included to accommodate all the levels of officials as per their entitlement.
 - Guest House facility is utilized as far as possible, before arranging accommodation in hotels.
 - Tariff agreed is either less or equivalent to the printed tariff along with general package like breakfast, dinner, pick up from airport etc.
- (xvi) Administrative Functions - verify that:
- Stationery register is maintained properly on day to day basis.
 - All receipts are acknowledged by the recipient.

- c. Physical verification of stock of stationery is conducted regularly and follow up action taken.
- d. Review provision of residential telephones, handing over and taking over of telephone instruments, connection/ disconnection of telephone lines, sanction of CA for providing telephone to officials who are not eligible for residential telephone, safe custody of telephone lines.
- e. Log books of the photocopying machine to ascertain the idle time of a machine and analyse the reasons therefore. Examine whether machine is got promptly repaired as per the prescribed procedure, in case it goes out of order, so as to ensure its optimum utilisation.
- f. Examine the requisition slips for photocopying on test check basis to ensure that requisition is signed by the competent officer of requisitioning department and the photocopies received are also acknowledged by the recipient.
- g. Verify whether proper internal control system exists for the issue of liveries and in case cash payment is made for shoes/socks and stitching charges etc. proper records for payment thereof is maintained.
- h. Review liveries stock register and ascertain whether book balance tallies with the physical balance.
- i. Selection of uniform material is done by a committee and is carried out as per the guidelines / policies. Timely action is taken for the procurement and distribution of liveries. Procurement of uniform is not in excess of the quality required.
- j. Procurement of various types of uniform material for male and female employees is made as per the quantity based on the number of employees as far as possible delivered at the airports directly to avoid the expenditure on distribution from CHQ/RHQ to the Airports.
- k. Extra/unused uniform cloth, if any, is disposed according to the prescribed procedure.
- l. Proper records are maintained for repairs of furniture and electrical maintenance.

Chapter 18: Human Resources Management

The functions of Human Resources Directorate involves recruitment, remunerations, loans, promotions, social security schemes, separation, disciplinary matters etc., The HR policies and rules need to be followed uniformly and DOP needs to be kept in mind. The Internal auditor needs to examine to what extent the rules are being followed and flag shortcomings if any.

Activities to be covered:

- Recruitment
- Remuneration management
- Leave including encashment
- Loans and Advances
- Management of Social Security Schemes
- Employees Provident fund
- Pension
- Gratuity
- Promotions
- Disciplinary matters
- Separations

Records to be reviewed:

- Personal files
- Files and records relating to recruitment
- Leave records
- Files relating to sanction of loans
- Insurance policies for SS Schemes
- Files relating to Social security schemes

Points to be seen:

1. Recruitments are done for clear vacancies after approval by the competent authority.
2. Advertisements, intimation to employment exchange are done as per policy and guidelines
3. The guidelines regarding reservation of posts are followed.
4. There is no complaint regarding uploading of application and other issues in the AAI portal.
5. The eligibility criteria are unambiguous and the documents to be submitted are also clear.
6. The requirements advertised are as per R&P rules

7. The criteria for relaxation if any are clearly spelt out beforehand.
8. The candidates confirming to the requirements only are shortlisted and called for interview.
9. If the process is outsourced, it should be test checked.
10. Candidates called for interview are paid TA/DA as per rules.
11. The system adopted for engagement of outside agency may be reviewed.
12. The system followed by the agency for setting of question papers, conducting examination, evaluation of answer sheets need to be examined.
13. The committee for interview should be approved by the competent authority
14. The minutes of the interview committee are prepared and signed without any delay.
15. The credentials of the candidates should be checked and recorded before the interview.
16. Appointment letters are issued to selected candidates timely.
17. Appointment letter is standardised, incorporating all terms and conditions and other formalities.
18. Once the selected candidates report for duty, all formalities like Bond, police verification etc is carried out as per rules.
19. The personal files/service books are maintained properly.
20. The family details, own details like DOB etc are maintained
21. Nominations for each benefit like PF, gratuity, pension, benevolent fund, other social security schemes are obtained and systematically maintained.
22. Every significant event in the course of employment is recorded appropriately or all orders are filed in the personal file.
23. Medical examination is carried out at the time of appointment.
24. Probation completion orders are issued without delay.
25. Leave accounts are up to date
26. Credit to leave account is given as per rules
27. Leave encashment is granted as per rules
28. Encashment is debited to the leave account.
29. Leave to the employees are granted as per rules.
30. Accumulation of leave is not allowed beyond the limit.
31. Leave account is credited with un-availed joining time as per entitlement.
32. Gratuity claims are settled without any delay.
33. Insurance policy for remaining service gratuity is renewed in time.
34. There are no pending claims with the insurance company.
35. Insurance policies for HBA and other social security schemes are current.
36. There is no delay in settlement of any claim.
37. There is no pending claim for any of the social security schemes with the insurance company.
38. The information/intimation to be given to the insurance companies are submitted in time.

39. Clearance from vigilance and IR are taken before release of Gratuity and Half pay leave encashment
40. Check the system of recording absentees and recovery for the same.
41. Appointment of consultants and taking people on deputation is as per guidelines in this regard.
42. DPCs should be conducted regularly and in advance
43. Annual transfers are effected in time, well before the commencement of the academic session.
44. Transfer policy regarding tenure of stations is strictly followed.
45. In case of request transfers, transfer is at own cost.
46. Grievance redressal is timely and is not pending for a long time
47. Rotation of staff is carried out periodically.
48. MAB decisions are implemented correctly.
49. Review the MIS prepared and returns submitted
50. Before final settlement of benefits, a 'No Demand Certificate' should be obtained from all concerned sections.
51. The loans and advances are sanctioned as per rules and entitlement.
52. The documents specified in the rules are obtained, examined and are kept in safe custody.
53. The loans and advances are recovered as per the approved schedule.
54. Interest as per rules is recovered after the recovery of principal.

Chapter 19: Income Tax and GST

Income Tax and GST section deals with all aspects of corporate income tax and GST at corporate level. In addition, it also deals with the Customs Duty Exemption certificates. Filing corporate returns, getting assessment done, getting refunds if any, dealing with the appeals and guiding the units by giving clarification on the taxation issues are their domain. The Internal auditor may examine the system followed and suggestions for improving and streamlining the functions including tax saving may be given.

Activities to be covered:

- Calculation and payment of advance tax
- Calculation and payment of Deferred tax
- Filing of returns, income tax and GST
- Tax Deducted at Source reconciliation
- TDS returns
- Assessment
- Accounting entries for Income Tax & GST
- Input credit GST
- Payment of GST
- Appeal cases
- Customs Duty Exemption Certificates

Records to be reviewed:

- Income Tax and GST returns
- Calculation and reconciliation statements
- TDS certificates
- Assessment orders
- Appeal files
- Files relating to customs Duty Exemption certificate
- Cenvat Register

Points to be seen:

Corporate Income Tax:

- Review the status of all pending cases
- Bring out the action needed to be taken

- Review deposit of Income Tax and see whether all the payments were made in time
- Check the calculation for payment of advance tax.
- Check the calculation for the deferred tax
- Go through the assessment orders of the previous years. See the major disallowances.
- Go through the appeal cases. Suggest any changes required in the accounting treatment or practices to reduce disallowances.
- Review status of pending refunds with income tax authorities.
- Review the Tax Audit report.
- Review the performance and effectiveness of tax consultants
- Check the deposit of TDS with the challans and observe whether all payments are deposited in time.
- If any of the matters require attention of higher management bring it out.
- Check the instances of interest and penalty and suggest measures to avoid recurrence
- Check the capital gains if any and their treatment.
- Verify the calculation of depreciation for the purpose of Income Tax.
- Test check the TDS recovered. See whether correctly done.
- Verify TDS by the parties and their reconciliation. Check the return of income tax to see how much has been claimed.
- Review the balances in following heads of accounts:
 - Provision for Income Tax
 - Advance Tax
 - TDS by the customers
 - TDS from contractors/suppliers
 - Deferred Tax
- Check whether income tax liability accounted as per accounting policy
- Check the entries made on the finality of assessment
- Check the tax on dividend payable for correctness and timely deposit
- Review the system of MIS from the units and offer suggestions for improvement
- Reviews the tax planning adopted and identify further scope for better tax management.

TDS on salaries:

- Check the income tax calculations to ensure all taxable components are included.
- The tax is deducted uniformly throughout the year
- The savings declared by the employees have been considered based on the proof given by them.
- Income from House property has been considered as per rules.
- Verify whether the TDS deducted is remitted in time correctly.
- See whether Form 16 is issued correctly and in time
- Annual return (Form 24) is submitted within due dates.
- Reconcile the ledger balances to see there is no amount pending remittance.

TDS on contractors/Suppliers:

- Test check the tax deducted at source from the contractors/suppliers to see whether the correct rate of tax under sec 194 has been deducted.
- Review the instances where TDS has not been done. Check the reasons.
- Check the issue of TDS certificates and timeline.
- The returns are filed in time.

Income Tax Act,1961

1. Ensure deduction of tax at source (TDS) at prevailing rates
2. Ensure monthly deposit of TDS by 7th of next month.
3. Ensure timely issuance and collection of Monthly/ Yearly TDS Certificates (quoting PAN No of the deducted) as per the provisions of Income Tax Act,1961.
4. Ensure filing of Form 15G / 15H in case of non-deduction / lower deduction of TDS.
5. Ensure filing of quarterly returns within 15 days after the expiry of each quarter. Correct PAN details in quarterly returns.
6. Ensure that TDS rates are ascertained by verifying the PAN No. of the assesses.
7. Ensure that there is no case where TDS needs to be deducted but was not deducted.
8. Ensure submission of income tax return within the due date mentioned under section 139 to avoid interest under section 234A, 234B and 234C.
9. Check to ensure timely payment of advance as per the provisions of the Act.
10. Check to ensure whether tax audit was done on or before the due date under section 44AB.
11. Check payments made in cash under section 40A.
12. Verify assessment status and assessment orders.

GST:

GST law consists of robust audit mechanism to examine and ensure non-evasion of taxes and due compliance of the provisions. One of the major audit checkpoints will be reconciliation of the book records against GST returns to identify tax evasion. GST council has directed the authorities to analyse the data gaps between GST returns. Businesses should establish the internal controls and conduct periodic checks to eliminate any data gaps and ensure due compliance with the GST laws.

The following accounting records are maintained as required in according to the GST Act

- A true and correct account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers.
- The accounts of stock in respect of goods received and supplied and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- A separate account of advances received, paid and adjustments made thereto.
- An account, containing the details of tax payable (including tax payable in accordance with the provisions of sub-section (3) and sub-section (4) of section 9), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.
- Every registered person shall keep the particulars of –
 - (a) Names and Complete addresses of suppliers from whom he has received the goods or services chargeable to tax under the Act;
 - (b) Names and Complete addresses of the persons to whom he has supplied goods or services
 - (c) The complete address of the premises where goods are stored including goods stored during transit along with the particulars of the stock stored therein.

Types of GST RETURN

GSTR-1

GSTR-1 gives the detail of outward supplies of taxable goods or services affected monthly. The GSTR-1 is to be file monthly. The GST Return is filed on **11th of the next month**.

GSTR-2

GSTR-2 gives the detail of the inward supplies of taxable goods or services that are claimed input tax credit. GSTR- 2 contains all the transaction of the registered dealer for a month. It is also implied on the reverse charge mechanism. The GSTR-2 is to be filed monthly on every **15th of the next month**.

GSTR-3

It gives the detail of the outward supplies and inward supplies along with the payment of the amount of tax. GSTR-3 filed monthly on every **20th of the next month**.

GSTR-3B

It is to be a file for the months up to March 2019. GSTR-3B is filed monthly on every **20th of the next month**.

GSTR-9

GSTR-9 is to file for an annual return on **31st December of next financial year**.

GSTR-9A

GSTR-9A is to file for an annual return on 31st December of next financial year.

GSTR-6

GSTR-6 is filed by Input Service Distributor. GSTR-6 is filed monthly on every **13th of the next month**.

GSTR- 7

GSTR-7 is filed by authorities deducting tax at source. GSTR-7 is filed monthly on **10th of the next month**.

GSTR-8

GSTR-8 gives the details of supplies effecting through e-commerce operator and the amount of tax collected. GSTR-8 is filed monthly on 10th of the next month.

GST Return Due date

The due dates for filing all types of GST return could be extended by issuing orders or notifications. The following are the list of upcoming GST return due dates –

GSTR-2 and GSTR-3

GSTR-2 and GSTR-3 filing has been suspended now for the time.

The due dates for GSTR-3B have been extended to March 2019. All the businesses have to file GSTR-3B by the 20th of the next month until March 2019.

Revise GST Return

GSTR-1

Once you filed the return then you cannot revise. If in case, you made any mistake then you can rectify it in the next period's return. It means that if a mistake is made in September GSTR-1, then the rectification for the same could be made in October GSTR-1.

GSTR-3

Once you filed the return then you cannot revise. If in case, you made any mistake then you can rectify it in the next month's GSTR-1 and GSTR-2 returns. Direct revision in GSTR-3 is not feasible as GSTR-3 are auto-generated without the provision for editing.

GST input tax credit

The mechanism allows persons registered under GST to set-off their GST tax liability. Since GST is a consumption based tax, the input tax credit mechanism ensures that the ultimate GST liability is passed on to the consumer. Though input tax credit can be claimed by a person registered under GST for most inputs, some types of goods and services are not eligible for input tax credit claim. In this article, we look at such goods and services, which are not eligible for input tax credit under GST.

Motor Vehicles or Conveyances

ITC can be claimed for motor vehicles or conveyance only when they are used for making a further supply of such vehicles or conveyances or transportation of passengers or imparting training or for transportation of goods. Hence, expenses related to the normal use of motor vehicles for office purposes cannot be claimed as an input tax credit.

Food, Beverages and Outdoor Catering

Expenses relating to food, beverages and outdoor catering can be claimed as input tax credit only when inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or both or as an element of a taxable composite or mixed supply. Hence, regular taxpayers would not be eligible for claiming input tax credit on expenses relating to food, beverages and catering.

Beauty Treatment, Health Services & Cosmetic and Plastic Surgery

Beauty treatment, health services, cosmetic and plastic surgery related expenses cannot be claimed as input except when inward supply of goods or services or both of a particular category is used by a registered person for making an outward taxable supply of the same category of goods or services or as an element of a taxable composite or mixed supply.

Similarly, expenses relating to membership of a club, health and fitness centre is not eligible for input tax credit.

Life and Health Insurance

Expenses relating to rent-a-cab facilities, life or **health insurance** can be claimed as input tax credit only when the Government notifies it as services which are obligatory for an employer to provide to its employees under law. Else, to claim input tax credit, the inward supply must have been used for making an outward taxable supply of the same category or as part of a taxable mixed supply.

Travel Benefits for Employees

Travel benefits extended to employees on vacation such as leave or home travel concession cannot be claimed as ITC.

Works Contract Services

Works contract services, when supplied for construction of an immovable property (other than plant and machinery), cannot be claimed as input tax credit. However,

work contract services can be claimed as an input tax credit when it is an input service for the further supply of works contract service.

Construction of Immovable Property

Goods or services received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account or even when it's used in the course or furtherance of business cannot be claimed as input tax credit. Under GST Act, construction includes re-construction, renovation, additions or alterations or repairs.

Non-Resident Taxable Person

Goods or services received by a non-resident taxable person except on goods imported by him are not eligible for input tax credit.

Personal Consumption

Goods or services used for personal consumption are not eligible for input tax credit.

Lost or Stolen or Damaged Goods

Input tax credit is not available for goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples.

Composition Supply

Goods or services or both on which tax has been paid under the **Composition Scheme** will not be eligible for input tax credit. Also tax paid as interest, penalty or fine will not be eligible for ITC.

Points to be considered:

Invoicing documentation

- Whether Tax Invoice contains all the relevant particulars as required under law?
- Whether Tax Invoice for supply of goods is issued on or before the removal / delivery of goods?
- Whether Tax Invoice for supply of services is issued within 30 days from date of supply of service?
- Whether bill of supply is issued for exempt supplies/ non- GST supplies?
- Whether Receipt voucher is issued for receipt of advance?

- Whether Self-invoice and payment voucher is issued in case of RCM transactions under Section 9(4)?
- Whether refund voucher is issued for refund of advance received?
- Whether Credit note/ Debit notes are issued as per the provisions of the GST law as per Section 34?
- Whether Credit note/Debit Note is issued before 30th September of the Subsequent Financial Year?
- Have you checked correctness of Tax Invoice /Bill of supply with the appropriate Supply Register/ GSTR 1?
- Whether the Tax Invoice/Bill of supply is cancelled for genuine reasons, if any like Name of party/details where applicable?
- Whether any Invoice cum Bill of supply is raised for specific transactions?
- Whether the transport documents are maintained and verified?
- Whether any copies of Credit Note and Debit Note are raised otherwise than as specified in Section 34?
- Whether the Delivery challans /E-way bill Register is maintained?
- Whether Series of documents issued as per clause 13 of GSTR 1 matches with the Books of Account from July 2017 to March 2018?

Goods Sent to Job Work

- Whether the conditions are fulfilled for claiming input tax credit on goods (including capital goods) sent for job work?
- Whether the Principal has sent goods to the job worker under the cover of delivery challans?
- Whether the registered person has furnished FORM ITC 04 for the quarters in which goods were sent out for job work?
- In case the registered person has supplied goods directly from the place of business of job worker, whether he has satisfied the conditions laid down in proviso to Section 143 (1) of GST Act?
- In case the job worker is unregistered, and such job worker has supplied any waste/ scrap generated during the job work from his place of business directly, whether the registered person has paid tax on such supply?
- Have you checked any goods are sent for job work and returned within specified time?

Supply

- Whether the kind of outward supplies like Taxable supply, Exempted supply, Zero- rated supply, NIL rated supply, Supplies to SEZ unit / developers / Deemed Export and Merchant Export etc. Are appropriately classified under GST law?
- Whether any transaction which falls within the scope of supply has not been identified by the Registered Person?
- Have you checked for sale of capital goods and the GST charged and as to whether they are included in the returns filed?

- Whether abatement provisions, if any, are applicable (like one third for land) is compiled with?
- Have you checked the deemed supply as per schedule I?
- Are there any transactions wherein the goods sent for job work not received back are treated as supply?

Input Tax Credit

- Have you checked on sample basis the input tax credit availed with invoices from vendors like Bill of Entry, Tax Invoice, Debit Note, Self-Invoice, ISD Invoice?
- Have you checked entries in Inward supplies records for input tax and reconciled with Invoices from the vendors?
- Have you tallied monthly return with Input tax credit receivable, if any?
- Have you reconciled tax collections with payments and transfer of the balance to appropriate accounts?
- Have you checked adjustment of tax set-off by relevant journal entries?
- Have you checked that input tax credit on capital goods is correctly availed?
- Whether Input Tax credit is reversed for the sale of capital goods as specified in GST law?
- Any Reversal of input tax credit for the goods sent for job work?
- Whether the recipient of supply has effected payment for such inward supply within 180 days from the date of Invoice?
- Whether input tax credit availed is debited to recoverable account for availing re-credit?
- Whether the supplier has availed both benefits of depreciation and input tax credit?
- Whether Input tax credit is reversed against the receipt of Credit Note?
- Whether input tax credit is bifurcated in to eligible, ineligible, blocked and common credits?
- Whether the common credits are reversed as per Rule 42 of the CGST Rules?
- Whether input tax credit is availed on capital goods? If yes, whether credit is reversed as per Rule 43 of the CGST Rules?
- Whether reconciliation of input tax credit between GSTR 3B and GSTR 2A is done?

Input Tax Service Distributor

- Whether separate registration is taken as per the Provisions of law?
- Whether any tax is payable under reverse charge and obtained separate Registration?
- Whether eligible and ineligible input tax credit is apportioned as per the GST law?
- Is there is any reversal of Input tax credit and credit note is issued?

- Whether the calculation of Turnover for allocating the input tax credit is as per the law?

Classifications

- Whether the HSN details for inward and outward supply are verified?
- Whether the SAC code/HSN code is as per the law?
- Whether the HSN/SAC classification is the same as was followed in the erstwhile law if applicable?
- Is there any specific Advance Ruling applicable?

Returns

- Whether the copies of the GST returns filed by the registered person are reviewed?
- Whether reconciliation of GSTR 9 with GSTR1 and GSTR 3B is done?
- Whether interest which was due, has been paid while filing the Return?
- Whether any late fee which is due is paid while filing the return or any late fee which was waived?
- Whether the amendment details are filed correctly in the Returns?

GST collections and payment verification

- Have you checked whether tax payable is paid within the prescribed time as per the GST law?
- Have you checked whether tax is being collected beyond tax payable?
- Whether the tax payer charged wrongly IGST in place of CGST/SGST or vice versa?
- Have you followed the provisions of Rule 35 of the CGST Rules in respect of collection of taxes?
- Is there any excess collection of taxes?

Reverse Charge

- Whether Reverse charge tax is paid under 9(4) of the CGST Act 2017 ?
- Whether Reverse charge tax on notified supplies under Section 9(3) and 9(5) of the CGST Act 2017 is duly paid?
- Whether Reverse charge tax has been paid wrongly in lieu of CGST/SGST as IGST or vice versa?
- Whether corresponding input tax credit is availed on Reverse charge?
- Whether conditions of paying tax for RCM are fulfilled?

Value of Supply

- Whether all the inclusions to the value of supply as per Section 15 of the Act have been verified?
- Whether discount offered to customers (pre/ post supply) is not included in the value of supply after fulfilment of conditions under Section 15(3) of the Act?
- Whether valuation rules have been applied as per the GST law?

- Whether the registered person has claimed any pure agent deduction as per Rule 33?
- In case the value of supply is inclusive of the GST, whether the taxable value and tax amount is determined as per Rule 35 of the CGST Rules, 2017? In case of exports, whether the rate of exchange of currency is determined as per Rule 34 of the CGST Rules, 2017?
- Whether the rate of tax charged for the supplies is as per the GST rate notifications issued/ amended from time to time?
- Whether CGST/SGST/IGST is charged in accordance with place of supply provisions?
- Whether the tax collected from the customers has been entirely remitted to Government?

Place of supply

- Whether the supply is inter- State/Intra State has been identified based on the policy document of the entity?
- Whether the conditions for export of goods are fulfilled?
- Whether the conditions are fulfilled for export of services?
- Whether there are any imports of goods/import of services?
- Whether the Zero-rated supply is with or without payment of taxes?
- Whether the conditions for location of supplier are fulfilled?
- Whether the supplier is intermediary under the GST Act and the conditions are fulfilled?
- Whether the supplier has declared sale in course of Imports, Non- territory supply, High Sea supply in the Return correctly?
- Whether the conditions for location of the recipient are fulfilled?
- Whether the wrong payment of tax i.e. IGST in lieu of SGST/CGST is claimed as refund?
- Whether the wrong payment of tax i.e. SGST/CGST in lieu of IGST is claimed as refund?

Refund

- Whether the Supplier is eligible for Refund as per Section 54?
- Whether the supplier has applied for Refund and whether it is sanctioned?
- Whether any Refund is Rejected or pending before the Authority?
- Whether the Refund is Re-credited to Electronic Credit Ledger?
- Whether the Manual /Electronic documents for Refund are verified?
- Whether the Accounting impacts are given for Refund applied, pending rejected or appealed?
- Whether any Refund is wrongly applied like input services/Capital goods credit for inverted duty structure?
- Whether Refund and Input Tax credit is claimed for the same transactions?

- Whether interest on delayed refund is receivable?

Inward supply

- Have you checked the purchase invoice/ delivery challans with purchase register?
- Have you checked the HSN Classification for inward supplies?
- Have you checked Inward supply with the Monthly returns?
- Have you checked whether any input tax is added to the cost of purchase where input tax credit is not allowable?
- Have you made a list of inward supply invoices for which there are no corresponding entries in inward supply records and GST return?
- Have you checked that inward supplies are classified between intra-State, inter-states, Imports etc.?
- Have you checked that purchases of capital goods are booked as fixed assets and the GST is paid thereon?
- Have you checked Assets which have depreciated 100%?
- Have you checked sale / deletion of fixed assets?

Maintenance of Books of Accounts

- Whether books of accounts are maintained as specified in Section 35 r/w Rules 56, 57 and 58 of the GST Law?
- Whether Books of accounts are maintained electronically / manually?
- Whether books of accounts are maintained at each place of business?
- Whether books of accounts are maintained manually or electronically? If the same are maintained electronically, whether the software used complies with the requirements of the law?
- Whether the copies of Agreements/Agent agreement and other supporting documents are obtained?
- Whether copies of the Audited Financial Statements for each registration have been obtained?
- Whether Transporter/Warehouse keeper has maintained the books of Account as per the law?
- Whether the Register E-way Bill/Delivery challan is maintained as per the law?
- Whether E- Way bills are used for valid purpose?
- Whether the register of ITC-01, ITC-02, ITC-03 and ITC-04 is maintained as per the GST law?
- Whether the supplier maintains the Cash/Bank Register for recording he transactions entity wise?
- Whether the books of Accounts maintained are centralized or decentralized?

General

- Whether the registered person has complied with Anti-Profiteering clause?
- Whether reliance is placed on any notifications / clarifications / advance ruling / judgement in respect of rate of tax charged and collected. Whether any conflicting Advance Ruling order is applicable?
- Have you checked for any adverse points in reports in the previous year?
- Have you checked that assessment orders / appeal orders/notices issued by the department, if any?
- Is there any judicial pronouncement that could be applicable to the dealer?
- Have you come across any unusual transactions?
- Have you checked miscellaneous receipts / other income?
- Have you come across any huge or unusual inward or outward supply transactions / tax credits /tax payments etc.?
- Whether the registered person has availed the facility of digital signature?
- Review the following accounts
 - Input CGST a/c
 - Output CGST a/c
 - Input SGST a/c
 - Output SGST a/c
 - Input IGST a/c
 - Output IGST a/c
- All the returns are filed correctly and in time
- Check any cases of interest and penalty. Suggest measures for non-recurrence.
- Review the cases of Reverse charge.
- Review assessments done. Check any disallowances etc

Chapter 20: Insurance

The Objective of insurance coverage of different kinds of assets is to protect the Authority from any loss due to damage to assets of the Authority due to any reason. As this risk coverage has cost implications in terms of insurance premium, it needs to be ensured that premium payment is commensurate with the risk and no extra expenditure is incurred.

A. Activities to be covered

- (i) Insurance of Assets
- (ii) Review of claims
- (iii) Review of provision/ special condition of policies that effect the interest of AAI

B. Records to be reviewed

- (i) Basic documents for appraisal, review and evaluation
- (ii) Management policy on insurance coverage of assets
- (iii) Insurance Policies
- (iv) Claim bills submission
- (v) Claim register
- (vi) Periodical and yearly declarations to the insurance company
- (vii) Annual Report
- (viii) Insurance account, claim account and prepaid account in general ledger
- (ix) Statutory laws and rules

C. Audit Procedure for insurance policies

I. Various types of insurance covers taken by the authority could be classified in the following categories

- (i) Insurance of assets
- (ii) Insurance of vehicles/ CFTs
- (iii) Insurance of cash in hand/ transit
- (iv) Fidelity Insurance cover
- (v) Public Liability Insurance cover
- (vi) Insurance cover of pilots
- (vii) Material in Transit (including imports)
- (viii) Stock of stores and spares
- (ix) Any other cover

II. General review of Policies

- (i) All insurance policies are in force and valid.
- (ii) Schedule of coverage given in the insurance policy or attached to the policy does tally with the schedule submitted to the insurance company.
- (iii) Timely submission of periodical statement to the insurance company.
- (iv) Payment of premium and renewal of policy is done at the appropriate time.
- (v) Endorsement and related insurance clauses are attached to the policy.
- (vi) Refund of premium to be obtained is realized from the insurance company wherever applicable.
- (vii) Examine to what extent such coverage is unnecessary. Is there any necessity of further insurance coverage of the existing insurance? Are there any new items or aspects to be covered by further insurance?
- (viii) Is there proper co-ordination between different division/ location and the central office regarding compliance with policies and procedures? Appraising the units for adequate and/ or unnecessary insurance coverage, claims preparation and processing for submission, submission of periodical reports or statements to insurance company as per the terms and conditions of the policy, promptness in reporting of loss by division/ location.

III. Review of Policies for Assets

- (i) Valuation of assets is reviewed at intervals decided by the management.
- (ii) Value of assets covered for insurance is reconciled with the assets as per the Balance Sheet figure.
- (iii) Unserviceable assets are not included in the assets insured. Uninsurable value, e.g. plant and building foundation, ordinary bricks, fire-bricks etc., assets written off or fully depreciated but still in active use, items already adequately insured by third party, items for which the company has no responsibility or risk of loss, facilities which are treated as revenue and not capitalized and Co-insurance is specified in insurance policy.
- (iv) Review whether there is adequate control to make sure that assets on additions and retirements are reported to the Commercial Department.

IV. Review of Policies for Cash in Transit

- (i) Assessment of sum insured is reasonable.
- (ii) Instruments like cheques, drafts and pay orders are not included in sum insured.

V. Review of Policies for Vehicles

- (i) No Claim Bonus is allowed at the appropriate rate.
- (ii) First party cover is obtained for vehicles during life time of the vehicle as per policy.
- (iii) Written-Down Value of assets is correctly taken for sum insured as per consistent policy.
- (iv) Correct rate of premium is charged.

VI. Review of Policies for Aircrafts

- (i) As huge amount is involved in the insurance of aircraft, hence proper procedure is to be followed for award of insurance to the insurance company.
- (ii) The terms & conditions needs to be properly ensured so that there should not be any loss to AAI.
- (iii) Discount for no-claim in the previous year is considered before selecting underwriter and allowed in the policy.
- (iv) For a new aircraft waiting commissioning, appropriate insurance cover is obtained.

VII. Review of Claims

- (i) Procedure followed in preparation and processing of claims for submission is in order and prompt. Analyze claims pending submission for reasons of delay.
- (ii) Is the Insurance Company informed promptly for losses?
- (iii) Claims are submitted as per requirements enumerated in the Insurance Policy.
- (iv) Is there proper system for prompt reporting of losses by operating and other departments to the departments responsible for lodging insurance claims?
- (v) Is there adequate follow-up for timely realization of claims?
- (vi) Is there any rejection of claims or short settlement of claim and appropriate action is taken for write off.
- (vii) Analyze the reasons for rejection. Ascertain the responsibility of the official involved in this connection.
- (viii) Review whether any claim is rejected due to the same being time barred.
- (ix) Examine reasonableness of reduction of claim due to deduction for salvage materials.
- (x) Is there effective internal control to ensure that all claims are submitted i.e. to ensure that there is no omission in submitting claims?
- (xi) The correctness of accounting entry is vouched w.r.t. basic documents.
- (xii) Comment on instance of any loss due under-insurance of assets.

Chapter 21: Land Management

The Authority is vested with the ownership of 59249.29 acres (Approx.) of land as on 31/03/2019 which includes the land which has been taken by AAI on lease from various agencies like State Govt., MoD and the land of CSI Mumbai Airport and IGI, New Delhi Airport handed over to have Joint Venture Companies viz. Delhi International Airport Pvt. Ltd. (DIAPL)-(4799.09 acres) and Mumbai International Airport Pvt. Ltd. (MIAPL)-(1966.76 acres) at CSI (Mumbai) Airport on long term lease excluding carved out assets. Out of above, a part of land (Approx. 750.29 acres Approx) is under encroachment at various airports. Approx. 71% of land has been mutated/ transfer in the name of AAI. Mutation of land, transfer of title deeds in favour of AAI wherever not done so far as well as removal of encroachment on land is in progress.

AAI is the 3rd highest owner of Land after Defence and Railway. Hence Management of Land and its Safeguard is very important part for the Internal Audit Department to verify the record.

The Internal Audit of Land Directorate covers compliance with policies and guidelines for maintenance of land and its related records by the Authority.

A. Activities to be covered:

- (i) Compliance with the conditions for acquisition of land.
- (ii) Correctness of payments as per approval/ orders
- (iii) Status of possession of land
- (iv) Mutation of Land in AAI's favour
- (v) Status of Title of land in favour of AAI
- (vi) Accounting entries for acquisition of land
- (vii) Refund for excess deposit
- (viii) Status of removal of encroachments
- (ix) Allotment of land to licensees
- (x) Digitalization of land records.

B. Records to be reviewed:

- (i) Approval for acquisition of land
- (ii) Notice for land acquisition and hearing thereon
- (iii) Order for allotment of land by Revenue Division Officer
- (iv) Statement of account for disbursements
- (v) Approval towards payment for acquisition of land
- (vi) Land Register
- (vii) Revenue map/ consolidated Master Plan
- (viii) Title deeds of land
- (ix) Lease deed of lease hold land
- (x) Agreements for allotment of land
- (xi) Schedule of licence fee for land

C. Audit Procedure:

The procedure involves checking and review of the following records/ activities/ areas.

I. Procedure for acquisition

- (i) The acquisition of the land has the approval of the Competent Authority as per the new Land Regulations.
- (ii) The project cost estimate includes the cost of acquisition of land.
- (iii) For land acquired through the State Government, -
 - (a) Joint verification of land by AAI official and the Local Civil Authority is done.
 - (b) Review notice for acquisition of land.
 - (c) Review Award for announcement for acquisition.

- (d) A schedule of the land proposed to be acquired is prepared and signed by the revenue officials as a token of its correctness.
- (e) Schedule is put up along with the plan.
- (iv) Any special condition having cost implication for the Authority is spelt out clearly in the orders.
- (v) For any deposit required to be made an order is received from the State Revenue department and approval exists for depositing the amount.
- (vi) Verify the accounting entries for the payment for acquisition of land.
- (vii) Verify the statement of accounts for disbursement made from the advance by the land acquisition officer to check that the full amount of the advance is utilized and there is no left over balance. Any retention of balance required by the Revenue Department is justified in full. An early action for securing the refund of the excess deposited is taken. Comment on any outstanding refund.
- (viii) A certificate of balance lying with the Revenue department is obtained for record and audit purpose.

II. Enhanced Compensation of Land

- (i) Review approval from the Competent Authority for payment of enhanced compensation.
- (ii) Review deposit for enhanced compensation for correctness with reference to relevant orders.

III. Acquisition of Land at Nominal Value

The State Government may decide to acquire the land in public interest and give it to the Authority at a nominal value or free of cost. In such cases see whether the transfers are made under the Transfer of Property Act or Government's Grants Act? Review liaisoning with State Government for Notification for Acquisition, Hearing for Acquisition and other matters.

IV. Compensation payable to land owners

- (i) The copies of the award statements and award proceedings are received from the Land Acquisition Officer. The same is verified in conjunction with the land transfer certificate before accepting the award.
- (ii) The land in respect of which awards have been made possession had already been taken as per details of the land transfer certificates.
- (iii) The details of the land taken over, amount paid etc. are entered in the register of land maintained for the purpose.
- (iv) Assignment deed is executed by the Revenue Divisional Officer and an Officer of the Authority authorized for this purpose indicating the detailed particulars of the land, terms and conditions on which the land is consigned (this forms the title deed of the land which needs to be preserved carefully).

V. Land leasehold

For the land acquired from the State Government on lease hold basis, see that:

- (i) The expenditure incurred on the development etc. of the land is debited to the land lease hold account.
- (ii) The amount is written off proportionately over the period of the lease.
- (iii) Any expenditure that may be incurred to bring the land to its original position before handing over the land to the lesser on expiry of the lease is booked under miscellaneous/ sundry expenses.
- (iv) The details of the land taken over are entered in the register of land maintained for the purpose. A suitable note of all cases of relinquishment is kept therein. The title deed for the land should also be checked.
- (v) Adequate follow up is made for liaisoning with the State Government for pending cases of acquisition.

VI. Land Records

- (i) Check the Land records i.e. master title-deeds, possession particulars, details of land under encroachment etc., for available land.
- (ii) Land is surveyed and possession handed over by the revenue department is not less than what is paid for or agreed in MoU.
- (iii) Review commercial utilization of land and connecting details/ records.
- (iv) Review reconciliation of land records with Regional Estate Department.
- (v) For land allotment procedure to various parties-whether the allotment is as per laid down procedure/ DOP/ Commercial Manual/ New Land Regulations.
- (vi) Review records pertaining to billing, collection and outstanding dues of land revenue.
- (vii) Assessment of potential for additional revenue if the land is put to a possible alternative use. See if any request for allotment of land is pending and review reasons for delay in allotment.
- (viii) Compliance to implementation of CAB/ BOARD directives on various issues, submission of further information called for.
- (ix) Check that digitalization of land records has been done.
- (x) Review statement indicating status of land acquired, under possession, under encroachment including land for Operational area, Communication Station, Internal Block/ ATC Tower and Colony.

VII. Allotment of Land

- (i) Review pending requests for lease of land.
- (ii) Review agreements relating to allotment of land.
- (iii) To see that New Land Regulations regarding centre for perishable cargo, maintenance, repair and overdue (MRO), Aviation Fuel Stations (AFS), Flying Training Organization, Solar Power Units, Fencing Land for Hangars and Parking Bays relating to promoting Helicopters are complied with.

VIII. Encroachment of land

- (i) Review System for prevention of encroachment of the land belonging to AAI.
- (ii) Review follow up action for removal of encroachment.
- (iii) See that appropriate liaisoning is done with the State Government machinery avoiding/ removal of encroachment.
- (iv) Comment on land which is without boundary wall and is susceptible to encroachment.

IX. Legal Issues – Review Pending

- (i) Litigations relating to encroachment and comment.
- (ii) Litigations relating to possession/ title of land and comment.
- (iii) Arbitration matter relating to land.
- (iv) Disputes in connection with allotment of land.

X. Miscellaneous

- (i) Wherever land records are not available, review action taken for creating the land ownership documents and comment on shortcoming in liaisoning/ submission of information or any other gap in submission of information of State Revenue Department.
- (ii) In case of lease hold land see that lease rent of land is paid regularly. Check payment of lease rent for correctness.
- (iii) Review delay in signing of agreement and the consequential extra financial outgo.
- (iv) Review payment of property tax. See that classification of usage is indicated correctly to avoid any extra tax outgo.
- (ix) Review details of area furnished to the Municipal Authorities in connection with property taxes

Chapter 22: Material Management (Control of Stores, Disposal of Surplus Material)

Material management/Stores deals with the procurement of general items, housekeeping stores, chairs, trolleys, uniform material etc. It also deals with the disposal of surplus materials and Lost and Found items. The working of the department is governed by the Materials Management Manual.

Activities covered:

- Tendering for Procurement
- Receipt of Goods
- Storage
- Issue of goods
- Processing for payments
- Disposal of surplus materials
- Lost and Found Property

Records to be examined:

- Indent Register
- Inquiry register
- Purchase orders register
- LC Register
- Asset Register
- Stores Ledger
- Lost and Found Register
- Lost and found property regulations

Points to be seen:

Control of stores:

Internal Auditor has to conduct the examination of various records to see that the procedures laid down below are followed. In addition to the adherence of provisions of the material management manual, the internal auditor may give suggestions for improvement and flag any issues which may pose a threat/risk in future.

1. Requisitions for items are given after the approval of HOD
2. Complete specifications of items required are indicated unless they are standardised.
3. The quantity demanded is reasonable and not exorbitant

4. Requisitions for the requirement of individual officers are as per entitlement/policy.
5. Procurement action is taken for Economic Order Quantity.
6. Stock in hand, pending orders, consumption pattern, annual requirement etc are taken in to consideration before initiation of purchase procedure.
7. Maximum/minimum levels, lead time for supply etc also should be taken into consideration.
8. For requirement of capital items, adequate justification needs to be recorded.
9. For replacement of existing assets, preparatory works like survey off, etc are carried out as per policy.
10. Slow moving items are reviewed once in six months
11. Items not required for three years or more are declared as non moving.
12. Requirements from various departments are consolidated.
13. Budget provision should be ensured before procurement
14. Records as prescribed in the Material Management Manual are maintained.
15. The items are procured as per policy and prescribed procedure after following the provisions of Delegation of Power.
16. Procurement action is taken in such a way that the cost of purchase is kept to minimum.
17. The lowest cost supplier for the required quality and quantity is selected.
18. The file is processed for financial concurrence and approval without any delay.
19. A clear purchase order mentioning all the terms and conditions, payment terms, documents required, security deposit and liquidated damages, taxes etc is issued to the selected vendor within the validity period of the order.
20. Extension of validity of the offer is obtained if required.
21. The purchase order is accepted by the party and the acknowledgement is kept on record.
22. If the purchase order is issued on more than one party as per NIT, then they are issued at the rates quoted by the L1 party.
23. The incentives for SMEs are given to eligible parties for the eligible products as per policy.
24. In case any advance payment is envisaged, the interests of AAI should be protected by appropriate Bank guarantee etc.
25. Emergency purchases should be avoided
26. In case of imports, purchase should be on FOB basis. In case of any deviation approval of competent authority is taken.
27. Customs Duty Exemption certificates should be used for payment of customs duty.
28. Approval of competent authority should be obtained for foreign exchange outgo as per the provisions of delegation of power.
29. Imprest should be used only for the purpose for which they are sanctioned.

30. For requirements throughout the year, delivery schedule should be based on our requirement.
31. The supply of items should be strictly as per purchase order.
32. The quality and quantity should be ensured and taken into stock.
33. In case of deviations in technical specifications, in exceptional circumstances items with superior specifications may be accepted with the approval of competent authority without any extra cost to AAI.
34. In case of rejected items, shortage of materials, it should be taken up with the vendor immediately.
35. Tests, if any required should be carried out before the goods are finally accepted.
36. The cost of transportation should be limited to the amount quoted by the party in the tender.
37. The material should be properly stored and entered in the bin card, stores ledger etc
38. Issue of items should be against written requisitions
39. All issues should be properly entered in the Stores Ledger
40. In case part of the quantity requested is issued against a requisition, the fact should be noted on the face of the requisition and actual quantity issued only should be entered in the stores ledger.
41. Pricing of stores should be done as per the provisions of Material Management Manual.
42. Payment of demurrage should be avoided.
43. In case it is required, payment should be made after due approval.
44. Follow up should be made with the supplier for short receipt.
45. Entry in the stock register should be made for items received free of cost also.
46. Capital items purchased against a specific indent should be issued to the indenting department.
47. The unit in charge should periodically nominate a senior officer who will check at random, issue vouchers, justification for demand, test check of stock balance of a few items. In case of discrepancies they may be brought to the knowledge of the unit in charge. Remedial action may be taken with the approval of competent authority.
48. The fact of verification should be recorded in the bin cards and stores ledger.
49. Loss or damage to stores, if any, should be analysed
50. The reasons for the discrepancies should be analysed.
51. Payment should be recommended with the following documents (a) Proper invoice with GST No etc (b) Certificate of quality and quantity (c) Goods received note indicating entry in the stock register, page no. of the register.
52. Identification and analysis of non moving and obsolete or useless items needs to be done.

Disposal of Surplus materials

The material management directorate is responsible for disposing of surplus, obsolete, unwanted, useless material as per policy so as to get the maximum value to the organisation. They are also responsible for proper storage and maintenance of records. The Internal auditor should ensure that the points given below are followed by the materials management directorate and bring out the shortcomings if any. The internal auditor can also give suggestions regarding assets upkeep, access and security for improvement.

Points to be seen:

1. Assets should be scrapped only after the expiry of their useful life
2. In case any asset needs to be scrapped before the expiry of its useful life, the reasons should be recorded and approval should be obtained.
3. A survey committee should be constituted
4. A survey report should be submitted by the committee
5. Minimum reserve price should be fixed as per policy/guidelines.
6. Unusable spares should be disposed off along with the main equipment
7. The items earmarked for disposal should be kept in such a way that they are not exposed to elements, damage, theft etc.
8. Approval of competent authority should be obtained for acceptance of the survey report.
9. Disposal should be done through MSTC as per policy
10. The items should be segregated into lots of similar items so as to fetch the maximum price to AAI.
11. Salvage material lying if any for which insurance claims are lodged/likely to be lodged should not be included.
12. Arrangement should be made for physical inspection of items by the intending buyers.
13. Auction will be carried out till there is no offer for 8 minutes.
14. Subject to approval percentage should be specified.
15. Highest offer above the minimum reserve price should be accepted.
16. In case of offer below the minimum reserve price but within subject to approval percentage, it shall be accepted as per delegation of powers.
17. Money should be received and deposited with the finance department.
18. The delays in the disposal, if any, should be reviewed

Chapter 23: Lost And Found Property

Any property which is lost in the airport area, if found is kept with the Terminal Manager first. The passenger can claim the item after proving his ownership. After sometime the procedure as given below is followed and most of the items are handed over to stores in charge. If no claim is forthcoming for more than 3 months, the items can be disposed off as laid down in the AAI Lost and Found Property Regulations. The internal auditor has to verify to what extent the rules and procedures are being followed, how the safe-keeping of items is being done and what are the potential risks involved.

The points to be seen:

1. Lost and found items are handed over to the Terminal Manager by the person who finds it.
2. The inventory of items should be entered into a register maintained in his office.
3. If the details of the owner are available, the same can be verified at the time of any claim. If possible they can be contacted and informed.
4. If the briefcase/suitcase is locked, they can be by a committee of officers and inventory can be made.
5. Currency should be handed over to the Finance department.
6. After sometime, the items are generally handed over to the officer in charge of the stores.
7. Perishable items should be disposed off within 48 hours.
8. Yellow metal shall be kept in a sealed cover signed by a committee of officers and handed over to the finance department for safekeeping.
9. Objectionable items should be destroyed.
10. Arms and ammunitions should be handed over to the police.
11. Narcotics, drugs, foreign currency and money in excess of Rs.5000/- should be handed over to customs.
12. Official documents, passports, licences etc shall be sent to the issuing authority.
13. If no claim is made for more than three months, the items can be disposed off by AAI.
14. The items should be properly stored to avoid any damage, deterioration or loss.
15. Once a decision is taken to dispose of the items, a government approved valuer may be appointed for fixation of the minimum reserve price.
16. Disposal is to be done through MSTC
17. Subject to approval percentage (STA) should be specified.
18. Highest offer above the Minimum Reserve price may be accepted.

19. If an offer is below the minimum reserve price but within STA approval of competent authority may be obtained for acceptance.
20. Money once received will be deposited with the finance department.
21. If the owner of a property makes a claim after its disposal, the proceeds of that item may be paid to him after deducting the auction expenses of not more than 25% of the value.

Chapter 24: Motor Transport Department

Motor Transport Department is responsible for providing all forms of mechanical transport and equipment support to the Airport/unit. They are also responsible for the maintenance of these assets. Since the serviceability of assets like Crash Fire Tender are critical for the working of the airport, the working of the motor transport department in the most cost effective and efficient way is important. Delegation of Powers is one of the main documents which will govern their working. The internal auditor has to examine how efficiently and economically the department is working and offer suggestions for improvement.

Activities to be covered:

- Maintenance and upkeep of vehicles
- Fuel economy/efficiency of vehicles
- Insurance of vehicles
- Payment of related taxes
- Procurement of new vehicles
- Hiring of vehicles
- Survey off of old vehicles
- Repair and survey off of Govt vehicles (Central Workshop)

Records to be reviewed:

- Log book of vehicles
- History book of vehicles
- Stock register for spares, diesel and petrol.
- Record of unserviceable items
- RC book of vehicles
- Insurance policies
- Physical verification report of assets
- Issue records for petrol and diesel

Points to be seen:

1. History sheets/Logs are up to date
2. Whether any vehicle is abnormally high in fuel consumption
3. There is a fool proof system for issue of fuel vouchers
4. Serviceability of the vehicles and equipment is maintained
5. Insurance and tax payment on the vehicles is current
6. No claim bonus is claimed correctly
7. The WDV of the vehicle is calculated correctly
8. There is no pending insurance claim

9. RC books and other records are kept safely
10. Spares and consumables are issued against a job card
11. Job cards are raised for the repair works and the details are updated in the History book of the vehicle
12. Spares are procured in time by following all the rules and procedures
13. Tools and equipment issued to a vehicle are available and are verified periodically.
14. Replaced items are returned to the stores.
15. All records and registers are maintained correctly and are up to date
16. Log books are properly maintained and all the details of journey undertaken are entered
17. No major expenses are incurred on vehicles which are already survey reported.
18. Verify instances of very high repair and maintenance expenditure
19. If there is a storage facility for petrol/diesel examine whether proper system exists for procurement, receipt, storage and issue.
20. Physical verification of store, assets and spares are carried out at regular intervals.
21. Unserviceable vehicles and items are stored properly.
22. Disposal action is being carried out regularly.
23. Claims for repairing government vehicles are raised and realised in time
24. Schedule of charges for repair of outside vehicles revised as per requirement
25. Verify whether unnecessary stocking up of stores items are not done
26. Verify details of high value items not used for a long time
27. Report any asset which is not used for a long time
28. Comment on spares like batteries becoming unserviceable due to prolonged storage.
29. Analyse the utilisation of imprest money granted to MT in charge
30. Disposal of items are carried out as per instructions and guidelines.

Chapter 25: Publicity and Public Relation Department

The internal audit of publicity and Public Relations department covers adherence to policies and guidelines issued by the management for publicity and public relation.

A. Activities to be covered:

- (i) Payment for advertisements
- (ii) Empanelment of advertising agencies
- (iii) Participation in exhibitions

B. Records to be reviewed:

- (i) Budget for publicity and Public Relations department
- (ii) Tender for empanelment of agencies
- (iii) Stock register for exhibits
- (iv) Approvals for advertisements

C. Audit Procedure:

The procedure involves checking and review of the following records/ activities/ areas.

- (i) Broadly review the expenditure incurred w.r.t. set out objectives and the objectives achieved.
- (ii) Advertisements are made with the approval of competent authority including a type, size, number of days, colour, papers in which to be published etc.
- (iii) Publicity expenditure is within the budget limit.
- (iv) For advertisement routed through publicity agent, commission payable is duly approved.
- (v) Advertisements are compared with the orders, for its size, language, type, place of publication, etc. and terms of advertisement are complied with.
- (vi) In the case of set up advertisements, see that there is not much variation; say more than 5%, in space as between the newspaper in which the total space is the least and others.

- (vii) Errors and omissions, if any, in the advertisements, are made good by insertion in the next issue or by imposing reduction in the payments.
- (viii) A register is maintained to correlate the publication and bills to prevent any double payment.
- (ix) Advertising materials like artwork, etc. are preserved properly.
- (x) Sales promotion materials are entered in a register and preserved carefully.
- (xi) Expenditure on Exhibitions/ Stalls within India and outside is within the approved amounts.
- (xii) Revenue from the sale of exhibits etc is accounted for correctly.
- (xiii) Presentation material is purchased after approval by competent authority for rate, quantity, delivery etc. and requirements for tenders etc. is considered before placing orders for material.
- (xiv) Empanelment of advertising agencies.
 - a. Codal formalities like publication of tender on the web Site and print media are complied with.
 - b. A committee is constituted by the competent authority for selection of agency.
 - c. Parties are given an opportunity to make their presentations to evaluate their capabilities.
 - d. Recommendations of the committee are unambiguous, panel covers all regions; and the tenure recommended is as per the NIT.
 - e. Approval of the competent authority is obtained for the panel.
 - f. A register is maintained for allotment of assignment to various firms in the panel.
 - g. Assigning of job is approved as per DOP based on the estimated expenditure for the advertisement.

Chapter 26: Project Expense

The offices situated at the airports for the purpose of construction of runways, terminal buildings, installation of plants, equipments are subject, mutatis mutandis, to the same discipline of checks prescribed elsewhere in respect of the following functions:

- a) Purchase
- b) Stores
- c) Civil construction & electrical installations
- d) Establishment & Personnel
- e) Transport
- f) Accounting & Administration

Besides the checks as indicated above, the following checks will also be exercised during internal audit.

See that:

There is an-approved delegation of powers to the officers entrusted with the site work, as per the management policy;

- a) The purchases authorised are within the delegation of powers and are in accordance with the directives issued in the Materials/Works Manual;
- b) Is there adequate quotation including advertisement inviting quotations/tenders?
- c) The stores stock records are properly maintained and balances are struck after each transaction;
- d) The property/asset registers are properly maintained for all purchases of items like furniture, office equipment, tools and tackles etc. Which have been charged off to revenue and the items transferred from other works/project/offices:
- e) Proper records are kept of furniture and other items issued at the residences of the executives/staff and also those kept at the hostel/ guest house;
- f) Proper records of stationery purchased in stock and issued are also kept
- g) The periodical verification of stocks, assets and instruments is made and discrepancies, if any, noticed are regularised after investigation under orders of the competent authority;
- h) The materials for various works are drawn as per the schedule of quantity and/or Drawing Office and excess quantity issued, if any, is regularised with approval;
- i) The stocks/materials are properly secured against theft, loss due to fire, or other reasons and proper storage facilities exist;
- j) The scrap if any, generated has been kept properly and the amount realised on its sale/disposal has been credited to appropriate accounts:
- k) The agreements with contractors/sub-contractors have been drawn up in clear and unambiguous terms and the provisions are complied with by both the parties to the agreement and defaults, if any, are brought to the notice of the other parties within reasonable time;

- l) Extension of time granted to contractors/sub-contractors for execution of work is not likely to hamper other items of work and extension of time is obtained from the customers, wherever required, to avoid penalties;
- m) The recoveries from, and payments to contractors/sub-contractors for works are regulated according to the terms of agreements and bills are settled quickly;

For the Contractors:

- a) The advances are granted to contractors/sub-contractors if provided for in the agreement and recoveries of such advances are made from the bills;
- b) The rate of recovery of advances is revised on granting of any fresh advance;
- c) the balance in the advances account is properly secured at all times;
- d) Whenever any payments are made on behalf of the contractors/ sub contractors under any law, the amount is recovered subsequently from them;
- e) Adequate precautions are taken to guard against the passing of a second payment for the same work to the contractors/ sub-contractors;
- f) The entries made in measurement books for issues to works should be compared with the materials/components received at site and vice-versa;
- g) The contractors' ledger, works ledger and other subsidiary registers are maintained properly and entries are made immediately;
- h) Effective control is kept over manday details of sub-contractors' labourers employed to ensure smooth progress of work and to check the correctness of the contractors'/sub-contractors' claims;
- i) Income tax and other recoveries as required under any law are made correctly from the contractors/sub-contractors, and their remittance is done within the stipulated time;
- j) Approval of the competent authority exists for the appointment of casual labourers with reference to the period and rate etc.;
- k) Proper records are kept for employment of work charged/NMR personnel and their appointment is regulated taking into account the Central, State and Local Laws, and company's instructions;
- l) The wages and salaries which are due to the employees are drawn as per appointment orders and rules of the company and the recoveries are effected correctly and regularly;
- m) All other payments to employees are regulated according to the rules of the company applicable for the station of posting;
- n) The construction/supply/installation contract with the customer is drawn up in clear and unambiguous terms and the provisions are complied with by both the parties to the agreement viz. the company and the customer and all contractual obligations are met in accordance with the agreement; any change or deviation or default by either party is brought to the notice of the other part promptly;
- o) The execution of works outside the scope of the contract has been sanctioned by the competent authority and the price and other terms relating to the work have been settled prior to the execution of the work and the sum has been duly collected;

- p) The expenditure on vehicles and other services is within the limits and wherever it is billable to the contractor, the billing is done at the rate agreed upon;
- q) The collection of dues from the contractor is done without any delay and an up to date record is maintained for the amount billed, received, and yet to be received, order-wise/project-wise etc.
- r) The responsibility is fixed for demurrage charges etc. and claims are lodged promptly with carriers, insurance company or contractor etc.
- s) Free furnished accommodation provided to the company employees is in accordance with the company's directives and wherever the accommodation is provided to contractor's /sub-contractor's etc., recovery of rent is made as per the rate agreed upon with the contractor/sub-contractor;
- t) The books of accounts, registers and forms etc. are maintained properly as per the directives of the company;
- u) The accounts books and subsidiary records are written on day to day basis and balances are reconciled with the general ledger on monthly basis;
- v) all payments are classified correctly and monthly trial balance is prepared and sent to the controlling office;
- w)The imprest accounts are maintained properly;
- x) Departmental advances are drawn only for the immediate requirements and under proper sanction and these are adjusted as soon as the purpose for which they were drawn, is achieved;
- y) The expenditure is reasonable, supported by vouchers and kept within the approved amount;
- z)The postage-cum-despatch registers are properly maintained and stamps in hand tally with the balance shown in the register;
- aa) the amount collected from the employees on behalf of other agencies is sent to the concerned authorities immediately;

For the Payments

- a) The cheques are issued only by authorised officers of the company and the delegation provides for contingencies when one of the officers empowered to sign cheques is absent;
- b) The cheques are not signed in blank;
- c) Bank reconciliation statements are prepared and any irregularity noticed is pointed out and rectified;
- d) The cheque books and receipt books (blank forms) and other valuables are held in safe custody with the Accounts officer or the Resident Engineer in charge and a proper stock register is kept for the purpose;
- e) Intra-division accounts are maintained properly and reconciled frequently for the transactions routed through such accounts;
- f) Proper records are maintained for collection of construction/installation costs and such costs are compared with the estimated costs separately; Performa trial balance is drawn up for each order/project and reasons for variations from estimates are investigated and remedial action is taken wherever required;
- g) The statistical records are maintained and returns are submitted to the controlling

office on due dates;

h) The requirement of Central, State or Local Laws is complied with and reports/returns are prepared and sent to the concerned authority as required.

For Internal Controls

a) The physical progress of performance of the project/site office as compared to financial expenditure etc. is satisfactory and the procedures and systems laid down are adequately followed.

b) Review as to the effectiveness of management information and control system.

Verify the following:

a) Cash in hand

b) Postage stamps on hand

c) Fixed assets and calculation of depreciation

d) Progress of work with respect to measurement books and physical progress/sequence schedules as per PERT / CPM.

Compare the following in terms of physical and financial aspects:

a) Material to be supplied Vs. supplied

b) Materials receivable Vs. received

c) Bills to be raised Vs. raised

d) Equipments to be installed Vs. installed

e) Bills raised Vs. paid for

See that

a) The settlement of matters connected with winding up of the site office is in order and where reports are to be sent to the Government, the reports have been sent in time:

b) Action is taken to return all surplus materials /fixed assets etc. to the controlling office or other projects;

c) The completion report from the site engineer is drawn up and the excess and savings are approved by the competent authority before its completion cost is worked out.

d) Is there proper system of capital budgeting, forecasting, management of resources and financing?

e) Review whether realistic fund-flow and cash-flow statements are prepared to monitor financing of the project.

f) Examine the variations between budgeted and actual expenditure on the on-going project and whether prompt remedial measures instituted.

Review as to the application of modern tools and techniques of project evaluation to monitor the timely completion of project.

Is there proper verification of contractor's progressive bills with contracts project, engineering department's certification and overall satisfactory progression of the job? Is there any retention of money as per retention clause of the contract?

a) Review whether there is any hold-up of project and action taken to remove the bottlenecks. In case of any financial loss and / or any additional financing, ascertain the responsibility of the person/personnel involved.

b) In case of non-completion of the project within the stipulated date, ascertain the controllable and uncontrollable factors behind such a dislocation. Ascertain the extra financial cost for delayed completion of the project.

c) Is there any penalty realised from contractors for delayed construction where time is the essence of the contract?

a) Is there proper written directives and systems and procedures for the administration, engineering and accounting of the project? Review as to the compliance with the said established directives

b) Is there a collaboration agreement either in India or overseas? Review the compliance of the said agreement.

Review whether proper accounting done in respect of: capitalisation capital work-in-progress, estimated amount of contracts remaining to be executed on capital account and not provided for, capital goods in transit, advances for capital goods and stock of construction materials.

Is there a periodical reporting to the management by the project operating department? Is such a report reviewed?

Chapter 27: Operational Expenditure

In case of Airports / field units where funds for operational expenditures are provided through imprest on recoupment basis, it should inter-alia be verified that:

Only expenditures relating to operation and maintenance of the unit like electricity, water charges, maintenance of vehicles, telephone, POL, maintenance of equipment etc. are met from imprest account which cannot wait submission of the claim and receipt of payments from regional offices.

- i) The electricity, water charges and telephone bills are supported with the demand from the authority.
- ii) Necessary certificates by the competent authority for consumption, correctness of the amount claimed, the expenditure is for bonafide official purpose only etc. are enclosed or endorsed on the bill.
- iii) Arithmetic accuracy of the bill should be verified.
- iv) In the case of any arrears demanded by the authority, special sanction of the competent authority is to be looked for.
- v) The bill/demand should be cancelled by neatly scoring it.
- vi) After payment, the cash memo (money receipt) is attached with the bill.
- vii) All payment of expenditures exceeding cash purchase limit are made by crossed cheques.
- viii) Bills are submitted with the bill forwarding memo.

Departmental advance

- a) There is sanction of the competent authority for drawing the advance.
- b) The authority who will incur expenditure is competent to do so as per the delegations of powers.
- c) Expenditure met from the departmental advance is within the powers of imprest holder as per the delegation of powers. where it exceeds the power of the imprest holder the sanction of the Competent Authority is obtained.
- d) Every item of expenditure is supported by proper bill/ voucher duly countersigned by the imprest holder. The expenditure is incurred during the period under consideration and the dates are matching.

e) The certificate to the effect that enquiries required beyond cash purchase limit with not less than 3 parties were made and that the item has been purchased from the party who quoted the lowest rate and the item has been entered in the stock book, and is recorded in every voucher.

The amount is allocated to the correct head of account.

A certificate to the effect that the cash on hand as per account has been actually counted and found correct is furnished. The total amount claimed for recoupment and balance on hand do not exceed the sanctioned amount of imprest.

Regulation and verification of imprest to field units at RHQs

Regulation of Imprest Account

- Verify the list of offices/units which are entitled for keeping the imprest cash, together with the amount and their approval by the Regional Executive Director or Competent Authority.
- See the utilization and review the limits every quarter based on the actual expenditure.
- See that the limit of the imprest amount is fixed based on the average monthly actual expenditure of the previous year and 1/12th of the budget provision is made for these items.
- See that the Officer-In charge to whom these advances are granted is personally responsible for submission of accounts to the Regional Offices.
- The accounts are submitted by 5th of the following month on monthly basis along with the duly supporting paid vouchers. The second advance is drawn for a succeeding month as a special- case by the end of the month to allow for the period of delay in receipt of the accounts and to keep the work at the unit going unhampered. The third advance will not be granted till the accounts for the first advance are rendered to the Regional Office.
- The accounts rendered would be subject to prescribed checks with respect to regularity, competency, availability of budget provisions etc. before admittance.
- See that any expenditure objected to is kept outstanding as advance against the officer are regularized by the sanction of the Regional office /Hqrs, as the case may be. The imprest accounts are supported by a statement showing the status of the sanctioned imprest in the following format.

(Rs.)

Sanctioned Imprest (A)

Balance as on

a) By cash

b) With bank

3) Expenditure during the period

a) By Cash.....

b) Through Bank

4) Account Pending with Regional Office

Imprest Account submitted by the station which is in process of recoupment by Regional office).

5) Amount outstanding for want of sanction etc.

(Any amount disallowed in the previous accounts submitted).

Total of 2 to 5 + Sanctioned Imprest (A)

Imprest Account should be supported by the Photostat copies of the bank passbook and bank reconciliation statement.

All imprest and departmental advances also to be verified in respect of the following:

i. Examine the case where payments can be made by cheque following the normal procedure and operating the imprest / advance accounts can be avoided.

ii. Verify whether imprest. Cash balance is physically verified from time to time by the authorised official,

iii. Examine the circumstances under which emergency purchase had to be resorted-to and point out the cases where it can be avoided.

iv. Verify whether the expenses/purchase advances are adjusted immediately after the transactions are over and point out the cases where advances are outstanding for more than three months.

v. Review the internal checks provided in the system to prevent Imprest amount from being utilised by the imprest holder for his personal purposes.

Stores Bills for Indigenous purchases

See that

- i. The particulars on the invoices paid agree With the purchase orders as regards the rates, specifications, date of supply, mode of transport and' the quantity ordered and where there are deviations these are supported by proper amendments and approvals wherever required;
- ii. Bills are supported by the stores receipt vouchers and inspection reports duly completed and signed by the authorized persons such as stores officer, inspecting officer etc.
- iii. The charges for the items for which rates are not shown in the purchase orders, but provided for therein e.g. packing and forwarding charges, excise duty, sales tax etc. have been claimed and paid on a correct/reasonable basis;
- iv. The penal clause in the purchase order for delay in supply, liquidated, damages, non compliance with any other conditions like quality, mode of dispatch, has been adequately enforced and where not enforced, the reasons given are valid and acceptable;
- v. Adequate precaution is taken to guard against the passing of a subsequent claim for the same supply e.g. proper endorsement of payment exist on the purchase order or memorandum of payment kept with the purchase order under the dated initials of Accounts Officer concerned;
- vi. All recoveries noted on the stores receipt vouchers by the Stores department are promptly made and credit afforded to the head of account concerned.
- vii. In the case of rejected materials, the amount of freight/demurrage recoverable from the suppliers is recovered before the rejected materials are handed over to the suppliers.
- Viii. The arithmetical calculations are correct
- ix. There is no unauthorized correction, alteration in the quantities, rates etc.
- x. The payment is authorized on the basis of the original invoice and the amount paid is expressed both in words and figures.
- xi. The fact of payment is properly endorsed on the vouchers and accompanying bills, and other connected papers so as to avoid chances of double payments.
- xii. The allocation of the charge to a particular service/head of account is correct.

- xiii. Proper pay order from the Accounts Officer is endorsed on the Invoice/debit voucher concerned.
- xiv. The supplier's account is debited with the amount paid in the sundry creditors' ledger under the dated initials of the Asst manager and the balance is struck then and there.
- xv. It is a legitimate charge against the company and against the work or services to which debited;
- xvi. Recovery towards all statutory levies, Id, amount withheld for non compliance with terms and conditions (commercial or otherwise), tax from non registered dealers under sales tax act etc. are made and the figures are correct.
- xvii The penal clause in the purchase order for delay in supply, liquidated damages, non compliance with any other conditions like quality, mode of dispatch, has been adequately enforced and where not enforced, the reasons given are valid and acceptable;

Bills for imported supplies

- i. Check the payments/invoices with reference to provisions in the agreements, Purchase orders etc.
- ii. Check the payments of customs duty, port trust charges, ocean freight etc. to see that they have been correctly calculated as per tariffs/rates and allocated to the correct heads of account.
- iii. Review cases of provisional assessment of customs duty to ensure that final assessment is completed as soon as supplies on the contracts are completed.
- iv. Examine the circumstances leading to payment of demurrage and wharf age charges to see whether responsibility has been fixed and claims/recoveries made where necessary.
- v. Test check the accuracy of pricing of Imported items and also if allocation is correctly done. Review the reasonableness of pre-determined rates adopted for adjustment in accounts to ensure that over/under charges are kept to the minimum.
- vi. Check the bills of clearing agents to ensure that they have been passed as per the terms of contract with them and necessary recoveries in respect of demurrage etc. have been duly made.
- vii. Trace the items billed for agency commission in the original records such as bills of lading etc.

viii. See that Shipment Cost sheet is maintained properly and the postings under various heads are proved with the general ledger figures every month.

ix. Examine whether Letters of Credit issued are kept open only to cover the period of supply as per agreement. In cases of extension of letters of credit, see whether extension of time stipulated in the agreement for supply is granted by the Competent Authority.

x. Examine also whether letter of .credit kept opened is restricted to cover the maximum amount expected to be paid during a quarter, as opening of letter of credit for the whole of the amount payable under the contract may entail payment of unnecessary commission.

xi. The penal clause in the purchase order for delay in supply, liquidated damages, non compliance with any other conditions like quality, mode of dispatch, has been adequately enforced and where not enforced, the reasons given are valid and acceptable; wherever applicable Bank Guarantee towards security of LD is obtained and is in order/and enchased as per the conditions of the contract.

Advances to Suppliers

See that

i. Payments made are strictly according to the terms of the purchase order/contract;

ii. In case of payment of advances otherwise than on proof of dispatch or against proper security, approval of the Competent Authority has been taken;

iii. The advance payments are recorded in the Advances register

iv. There is no delay in the adjustment of the advances and prompt action is being taken for early clearance.

Payments to foreign Consultants/Collaborators:

a. Check the bills for payment of salaries, technical fees, insurance premium, travel expenses of foreign experts and payment of royalties to collaborators etc. to ensure that they are correctly passed in accordance with the provisions in the agreements or with the approval of the management/Competent Authority. See specially that excess baggage charges not authorized by the company are not paid to the specialists.

- b. Check the medical bills of specialists/consultants to see that they are in accordance with the provisions of the contract and the bills bear the counter signature of the Chief Medical Officer.
- c. See whether income tax is payable by the consultants on the amount paid by the company. If so, see whether appropriate recovery on account of income tax is made before release of payment.

Payments to Hospitals

1. Check the bills with reference to the agreed rates for treatment in the hospitals as per the empanelment agreement entered (on the-basis of AIIMS /local- (Medical College) Hospitals which are providing graduate course;
2. Room rents are paid as per the entitlement fixed;
3. The bills are signed by the employees at the time of discharge:
4. Treatment of the dependents is verified with reference to the declaration made; and the name of the employee and the dependent are mentioned in the Bills.
5. The estimate of charges is provided by the Hospital and authorized by the Authority; generally the actual expenditure is not widely varying from the estimates and in case of such wide variation, the matter is reported to the Authority during the treatment.
6. Generally the- Claim of the individuals and the bills of the Hospitals are monitored to check" abnormal claims and to ensure that there are normal practices by the individual and Hospital.
7. In case of chronic diseases, check the quantity of medicine consumed with the generally permitted quantity / dosage for the period and the medicine charges levied are as per the market rates;

Payment for Hotel accommodation/hiring of vehicles/contract for providing tickets for travelling

The bills are - supported with documents for occupancy, approval of the tour/travel by the Competent Authority, the - rates are in accordance with entitlement as per IA Rules;

In case of hiring of vehicles the hiring is made for the authorized purpose/entitled officers; and approval as per DOP is attached; the rates are verified and certified by the officer authorized for the purpose; The claims/bills by the parties are made within a reasonable period of time at fixed frequencies and payments are made as-per the

terms & conditions of the agreement and in favour of the- name & address in the agreement; applicable taxes & duties are- recovered and remitted to (he concerned authorities within the time limit as prescribed for the purpose.

Departmental Advance/Imprest recoupment-records of finance

To verify the records maintained in the finance department on imprest accounts, see that

- i. All cases of payment of departmental advances are covered by proper authorizations and they are duly recorded in the register of departmental advances;
- ii. There is no delay in their adjustment;
- iii. The accounts received are duly checked before effecting adjustment and are properly allocated;
- iv. All sub vouchers are duly cancelled;
- v. In case of imprest recoupment, there is a sanction to the imprest, the accounts rendered by the officers are subject to adequate checks before recoupment, the properly allocated entries are kept in the prescribed register's wherever required, and the vouchers are duly cancelled and the imprest amount sanctioned is not excessive, the requirement of imprest amount sanctioned may be evaluated based on the actual utilization; see whether the amount sanctioned is unutilised for longer periods.

Insurance

See that

- i. The policies are kept in force by payment of premiums on due dates;
- ii. The original policies are kept in the custody of a responsible officer;
- iii. All items and property of the company have been adequately covered;
- iv. Claims are raised against the policies wherever necessary and there is no delay in realization of the same;
- v. The premium paid for various categories of policies are correct as per the terms of policies.

Claims Cases

- i. See that the claims on the insurance company are promptly settled and pending cases are vigorously pursued.
- ii. Examine the rejected claims on a test check basis to see that the rejection was not due to any default on the part of the Authority employees.
- iii. Review the cases where the claims have been settled for lesser amount than the amount of claims lodged to see that there is no omission or commission on the part of the company employees leading to such short settlement.
- iv. Test checks the cases to see that all claims lodged have been brought into account.

See whether the pending claims and the suspense accounts are being regularly reviewed by the Deptt. Concerned.

Journal Vouchers

- i. Review the JVs to ensure that the adjustments made are correct and based on proper documents.
- ii. Verify the postings with reference to the allocation of account -
- iii. See that adjustments to purchases in case of purchases resold items are effected in the same month in which the items stand invoiced.

Security Expenses

Check whether all the reimbursements to MHA are released as per the Guidelines issued/MOU with MHA/CISF Act. Wherever the payments relating to security expenses are paid directly to third parties the same are released as per the rules/procedures and prevailing DOP applicable to related expenses of the Authority.

Wherever the payments, relating to the period prior to induction of CISF and also in respect of airports where CISF is not inducted, are reimbursed to STATEPOLICE AUTHORITY or other agencies, the same are reimbursed as per the Guidelines issued by BCAS on the subject and based on the certification for deployment by Date. of Operations.

Miscellaneous Payments

See that

- i. Suitable record is maintained for all payments authorized to safeguards against double payments;

ii. The payments are made as per the terms of agreements or authorized rates and on the basis of sanctions/authorizations for Payments from Competent Authorities: the services for which the payment is made have actually been received by the company,

Suspense and other statistical registers

- a. Purchase Order Register
- b. Register of wharf age and demurrage paid
- c. Earnest money deposit
- d. Security Deposit
- e. Advances to suppliers
 - f. Claims recoverable
- g. Sundry creditors
- h. Customs duty deposit
 - i. Departmental advances.
- j. Sundry debtors/Advances register

A review of the above registers will be made to see that these are correctly maintained, closed on due dates, outstanding old items are reviewed/cleared promptly and the balances in the subsidiary ledgers are reconciled with general ledger every month.

Chapter 28: Physical Verification of Fixed Assets

Physical Verification committee constituted by the competent authority is mainly responsible for verification of physical balances of stores held in the custody of the Stores officer.

See that:

- i) The programme of stock verification is evenly distributed and regular verification is carried out throughout the year and no items of stock are left out of verification except for valid reasons and all such items are taken up in earlier half of the next year's programme;
- ii) Action as per Material Management Manual is taken on all discrepancies, investigated and settled promptly;
- iii) Preparation of the Physical Verification Discrepancy Voucher showing the physical balance and bin card balance item-wise and the difference between the two is not delayed and receives due attention;
- iv) Adjustments for the amount of stores found surplus/deficit are promptly prepared and the postings in the register of discrepancies are correctly done;
- v) The fact of verification is entered in the bin cards;
- vi) The discrepancies noticed during verification are adjusted with the approval of the competent authority and there is no undue delay in investigating the reasons for discrepancies and their regularization;
- vii) Review the monthly reports on pending discrepancy vouchers. Examine especially old cases and ascertain reasons for their non-clearance.

Chapter 29: Revenue & Expenditure under RCS Scheme

Under the RCS scheme, central government authorizes AAI to develop certain existing airport infrastructures into fully commercially operational ones , for which all the expenses incurred into such development are reimbursed to AAI by Central Government and certain expenses on Electricity and Fire by State Governments. Once such property is fully operational then it will be operated by its respective owners/operators in regular way.

Points to be seen:

- Whether the expenses incurred on development of completed properties are in sync to the allocated budgets?
- Whether such expense have been claimed as reimbursement in time?
- Whether the claims filed are reconciled with the actual expenses regularly?
- Whether the expenses claimed from State government are in time?
- Whether the expenses claimed from State Government are of similar nature and in authorized limits?
- Whether the claims are being processed in time? If not whether follow up procedure are being followed?
- Whether any claims pending for more than 6 months from the procedural time required for reimbursement?
- Whether any dispute is pending in any claim?
- Whether the reimbursements are surly accounted for in time and from the same account as required?
- Whether the expenses incurred in development have propriety element in it?
- Whether any expenditure incurred in development is being written off due to non/short filling or any other issue?

Chapter 30: Expenditure on Deployment of CISF

For the security and safety of the Airports, CISF is appointed by Ministry of Home Affairs for which the pay and allowances as per the entered MOU is being paid by the AAI to CISF on monthly basis.

The payment is to be in consensus with the agreement, AAI should have proper control in place to account in and pay these expenses in time.

Points to be seen:

- Whether the CISF expenses incurred are as per the MOU?
- Whether the day in/day out report strength is reconciled with the actual force allotted by the Ministry?
- Whether the computation provided is in term with the agreement?
- Whether any due is pending for more than allowed time for payments?
- Whether any litigation/issue pertaining to any matter is pending?
- Whether the bills raised are reconciled by the data of AAI for processing of payments?

Aviation Security Fee:-

- As per Order No. 13024/659/2015-AS dated 7th June 2019 the Central Government has levied Aviation Security Fee on all passengers and order dated 29.06.2019 under the subject-Formation of National Aviation Security Fee Trust, the ASF will replace PSF which is being currently charged on all passengers. PSF will be collected in common pool Account of Government. Therefore, Expenditure will also be borne from this common pool i.e. Trust w.e.f. 01.07.2019.

CHAPTER 31: CSR

The term "Corporate Social Responsibility (CSR)" can be referred as corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to companies efforts that go beyond what may be required by regulators or environmental protection groups.

Corporate social responsibility may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.

Moreover, while proposing the Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013, the Chairman of the CSR Committee mentioned the Guiding Principle as follows: *"CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth3."*

CSR ACTIVITIES

The Policy recognizes that corporate social responsibility is not merely compliance; it is a commitment to support initiatives that measurably improve the lives of underprivileged by one or more of the following focus areas as notified under Section 135 of the Companies Act 2013 and Companies (Corporate Social Responsibility Policy) Rules 2014:

- i. Eradicating hunger, poverty & malnutrition, promoting preventive health care & sanitation & making available safe drinking water;
- ii. Promoting education, including special education & employment enhancing vocation skills especially among children, women, elderly & the differently unable & livelihood enhancement projects;
- iii. Promoting gender equality, empowering women, setting up homes & hostels for women & orphans, setting up old age homes, day care centers & such other facilities for senior citizens & measures for reducing inequalities faced by socially & economically backward groups;
- iv. Reducing child mortality and improving maternal health by providing good hospital facilities and low cost medicines;
- v. Providing with hospital and dispensary facilities with more focus on clean and good sanitation so as to combat human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- vi. Ensuring environmental sustainability, ecological balance, protection of flora & fauna, animal welfare, agro forestry, conservation of natural resources & maintaining quality of soil, air & water;
- vii. Employment enhancing vocational skills
- viii. Protection of national heritage, art & culture including restoration of buildings & sites of historical importance & works of art; setting up public libraries; promotion & development of traditional arts & handicrafts;

- ix. Measures for the benefit of armed forces veterans, war widows & their dependents;
- x. Training to promote rural sports, nationally recognized sports, sports & Olympic sports;
- xi. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development & relief & welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities & women;
- xii. Contributions or funds provided to technology incubators located within academic institutions, which are approved by the Central Government;
- xiii. Rural development projects, etc
- xiv. Slum area development.

Explanation. — For the purposes of this item, the term ‘slum area’ shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.¶

The Above list is illustrative not exhaustive. All activities under the CSR activities should be environment friendly and socially acceptable to the local people and Society. Contribution towards C.M relief fund shall be a part of CSR activities above 2% of Net profit other than the activities mentioned above.

Part III - Reporting & Follow Up

Chapter 32: Reporting

Once the audit is completed, a comprehensive and clear report should be submitted to the management. The internal auditor should have a meeting with the head of unit in the presence of head of finance and discuss the various observations and give them an opportunity to present their side of the issues. Only after considering these, the auditor should decide on the observations to be retained in the audit report. The audit report should be submitted within a reasonable period of time after the conduct of the audit. The audit report to be effective, should be complete, concise, accurate and objective. The contents of the audit report as suggested are discussed below:

1. Name of the unit audited:

Apart from the name, this will also specify whether the unit audited is an airport or project or regional office etc. It may also be a department in corporate headquarters.

2. Period of audit:

The auditor will specify the date of commencement of audit and completion of audit and the number of working days taken to complete the audit.

3. Details of award letter:

The letter number and the date on which the audit engagement was awarded need to be given.

4. Details of auditors:

The name, designations/status of the auditors engaged in the audit together with the number of days engaged need to be given under this.

5. Scope of audit:

The details of area taken up for audit and the basis adopted for the selection need to be mentioned here. For example if vouchers were taken up for audit how many were taken, on what basis i.e., on the basis of value or on the basis of the month or randomly etc need to be given.

6. Audit Observations:

The audit observations should be brought out using the 5C framework with reference to the audit objectives. They are:

- **Criteria**
What should have been done as per the rules/guidelines/ Manuals etc
- **Condition**
What has happened. What is the prevailing situation. The factual evidence found in the course of audit as compared with the criteria as discussed above and the deviation from the norm.
- **Consequences/Effect/Impact**
What is the effect or consequences of the deviation. What are the risks? It is the actual or potential impact of the condition. To warrant reporting it should be sufficiently material also. The significance/seriousness of the condition is measured by the effect. The effect could be expressed in numerical terms also.
- **Cause**
What caused the condition or deviation? It could be lack of training or insufficient communication or wrong interpretation or outright wrongdoing. Identification of the cause for the unsatisfactory condition is essential to find a solution.
- **Corrective action/Recommendation**
What corrective action is suggested for non recurrence of the condition? How it can be avoided?

7. Suggestions for improvement:

Apart from the situation where conditions of deviations exist, there could be a situation where even though there is no deviation from the rule/manual, scope for improvement or risk avoidance is possible. These observations may be brought out separately.

8. Positive aspects:

The objective of the internal audit is continual improvement and not fault finding. Therefore it is desirable that good practices followed in a particular unit because of their own initiative may be brought out. This will boost the morale of the better performing officers/units. Further the management may also take measures to introduce those steps/activities at all the units uniformly.

9. Details of Exit interview

The details of interview with the head of the unit, together with the head of finance, officers present, issues discussed, the reaction of the officers etc., need to be given under this.

10. Whether all records were provided:

The auditor should categorically say whether all the records requisitioned were provided by the unit or not. In case any of the records were not available or not provided, the details of the same should be brought out.

11. Any difficulty or limitation faced

The auditor may bring out any difficulties faced by him in the performance of his functions at the unit. The reasons could be anything, including lack of co-ordination to co-operation. This will enable the audit headquarters to improve the future working and increase the effectiveness of internal audit.

12. Paras pending from the previous audit report and action taken

The details of previous audit paras, action taken on them and the paras still pending and action needed to be taken may be given under this.

13. Date of audit report

Apart from the above the audit report should have proper spelling, grammar and punctuation. The format and font should be uniform. It should be simple and easily understandable.

Ten things not to say in internal audit report:

According to Mr Richard Chambers, CIA, CGAP, CCSA, the following are the ten things which should not find place in an internal audit report:

1. Don't say "Management should consider....:"

The internal audit report should offer solid recommendations for specific actions. When the recommendation is merely to consider something, even the most urgent call for action could become nebulous.

2. Don't use "weasel words"

Mr Richard chambers calls expressions like, "it seems that", "our impression is", "there appears to be" as weasel words and should not be used. Even though they may appear safe and diplomatic, it may give an impression that the auditor is not presenting well supported facts. The over use of these expressions may give an impression that the observations are too much like hunches.

3. Use "intensifiers" sparingly

The uses of words like, "clearly", "special". "well", "very" to add emphasis is common but not desirable. It may give rise to questions like "significant compared to what?" and "clearly according to what criteria?". Two readers of the same report may conclude differently because of the over use of intensifiers. A specific figure like 3 Crores will be more effective than an expression like "huge".

4. The problem is rarely universal

The expressions like, "everything", "nothing", "never", "always" are fighting words and can distract the reader from the real issue. An expression like, "Ten vouchers were verified and none of them were approved" is desirable as compared to "The vouchers are never approved."

5. Avoid the "blame game"

The audit report should appear to be neutral and not confrontational. The purpose of internal audit is to improve the system rather than to assign blame. The goal is to go to the root cause rather than naming someone. However in case of wrongdoing it is fine to identify the party responsible, to take action.

6. Don't say "Management failed"

The expression like "management failed to implement controls" is confrontational and blaming. It is a sweeping statement which will not result in any desirable objective.

7. "Auditee" is old school

The term auditee is widely used to refer to the unit being audited. However some are of the opinion that auditee implies someone who has something done to them by an auditor. The terms like "audit client" and "audit customer" are considered more appropriate.

8. Avoid unnecessary technical jargon

Too much use of technical jargon will distract the reader and confuse the reader rather than clear communication. Technical jargon may be avoided wherever possible.

9. Avoid taking all the credit

It is tempting to use expressions like, "internal audit found", or "we found". However it may not be appropriate when there was nothing which was hidden in the first place.

10. If it sounds impressive, you probably need are write.

The readers of the audit report should remember the recommendations and actions to be taken rather than pompous words or bloated phrases. The report should be simple enough to be understood by anybody.

A sample format for Audit report is given in the following pages: **ANNEXURE – II**

Chapter 33: Follow Up

The following procedure shall be followed by the internal audit department regarding the action to be taken:

For the audits conducted by the outsourced auditors

- The internal auditor should submit the audit report to the CHQ with a copy to the RHQ.
- The RHQ should go through the report and offer their comments if any
- The report will be examined by the internal audit department and if any deficiencies are noted prima facie, they will be referred to the internal auditors.
- If the report is acceptable, the same will be put up to the Member (Fin) with comments for acceptance.
- Once approved by the Member (Fin) the report will be communicated to the unit with a copy to the RHQ.
- The unit will take corrective action and inform both RHQ and CHQ
- This will be put up to the Member (Fin) for information
- Internal audit department will keep track of audit observations and their disposal
- Based on the audit report if any guidelines/clarification etc are needed the same will be issued after approval by the Member (Fin)

In case of audit by departmental auditors

- The observations will be discussed with the ED (IA) by the audit team
- The draft report will be put up for approval.

- The report will be communicated to the unit with a copy to RHQ
- The unit will take corrective action and inform both RHQ and CHQ
- This will be put up to the Member (Fin) for information
- The Internal audit department will keep track of audit observations and their disposal
- Based on the audit report if any guidelines/clarification etc are needed the same will be issued after approval by the Member (Fin)
- An MIS should be sent by each unit on a quarterly basis regarding the internal audit/surprise audit/CAG audit conducted at their unit
- Also the status of observations raised in the internal audit/surprise audit/CAG audit along with the ATR
- The reports should be sent to CHQ internal audit within 15 days after the end of each quarter

The format of records to be maintained by the units are given in: **ANNEXURE– II**

ANNEXURE- I

1. Revenue (Traffic/Non Traffic)

S. No	Particulars	Audit Observation
1.	Timely raising of Customers bills. Bills are raised on fortnightly basis for all operators who have credit facility. The bills for first fortnightly are raised on or before 25th of the month and second fortnightly on or before 10th of the succeeding month. This is subject to change as the credit policy in vogue from time to time. There should not any delay on raising the bills.	
2.	Deductions of Taxes or any other applicable deductions and deposit/remittances etc	
3.	Payment realization, Follow up action etc.	
4.	Bill to Bill adjustment in r/o Metrological Department, IB, Custom department, State Police, State Govt. offices and other Govt./PSU Agencies etc	
5.	Conversion of unclaimed Security Deposits, EMD & advances to Income as per the AAI norms	
6.	Check and confirm whether interest on delay/default have been levied or considered as per the AAI policy or not.	
7.	Proper reconciliation, Accounting, updation in the customer account including issue of NDC (no dues certificate).	
8.	Approvals, applicable rates, taxes, S. tax/GST or other applicable & statutory taxes, remittances.	
9.	Reconciliation of taxes & Filing of tax returns, statutory compliance as per the	

	statutory bodies or Authority, issue & incorporation of TDS certificates.	
10.	TDS certificates for amount deducted by the customer/client/agency on payment received.	
11.	Adjustment of advance payment deposited by the customer/Agency, approval, Security deposits, Bank Guarantee (BG), confirmation of BG, renewal of BG, FDR in absolute favour of AAI and Maintaining of proper records	
12.	Outstanding Dues, Report and status of outstanding Dues, follow up action, status of sundry debtors, detailed analysis of old outstanding dues, , interest on delay in payment by the customer& incorporation in the Bills, Dues more than security amount or SD , unlink credits etc.	
13.	BRS & balance confirmation.	
14.	Maintenance of Bank Book and reconciliation of Bank transactions etc.	
15.	Reconciliation of fund remittances and any unauthorized transactions etc.	
16.	Unlinked credits.	
17.	In case of expiry of contract but licensee not vacating the space/ land allotted, the bills for damages for unauthorized occupation needs to be raised by the concerned Directorate in consultation with Law Department or as per the guide lines issued by CHQ on the subject from time to time.	
18.	Schedule of sundry debtors, deposits etc. are made at the end of the year and tallying with the general ledger.	

19.	Review the monthly journalisation of billings and postings in sundry debtor's ledger and other records	
20.	Review sundry debtors' ledger and see that adequate action is being taken to realize the dues in respect of old outstanding cases. Ascertain whether confirmation letters for the outstanding amounts are obtained at the year-end from the customers.	
21.	See that a systematic review of the claims on customers is made with a view to realize speedily the amounts billed.	
22.	See whether the bills raised are in accordance with the accounting policy, guidelines issued and decisions conveyed for the purpose of recognition of revenue on cash basis/ receipt basis.	
23.	See that receipts from customers are not lying as unlinked credits or under advances/ SD account or other airports pending allocation to the correct sundry debtor account. Failure to allocate or cases of delay should be commented upon	
24.	See whether interest is claimed on over-due amounts and where not claimed, the orders of the competent authority are on record	
25.	Review the provisions for bad and doubtful debts and for contractual obligations to see whether they are made as per directives/ policy guidelines issued from the Corporate Office	
26.	It has to be ensured that the proper write-off action has been initiated for the very old debtors not recoverable/ parties not traceable and to see that	

	the proper procedure has been followed for write-off action.	
27.	Examine the system/ procedure for accounting of deductions by the parties and see whether credit notes are issued under the signature of appropriate authority taking into account the TDS also.	
28.	Examine the system/ procedure for accounting of revenue/ income accrued but not due correctly	
29.	Review the reports prepared for the management regarding billing, sundry debtors etc. for their accuracy with reference to basic records.	

2. Commercial

S. No	Particulars	Audit Observation
1.	Fixation of MRLF in terms of Commercial manual before tendering.	
2.	Scrutiny of Tenders from NIT to award a work.	
3.	Scrutiny of the Bills raised with reference to agreement.	
4.	To ensure that Electricity Bills are inclusive of service charges at the current rates, rate charged is not less than the rate paid.	
5.	Periodic review of the Debtors and Confirmation of the Balances Outstanding from the clients.	
6.	Any Revenue contract runs as Exp. Contract.	
	Control mechanism in existence when contracts run departmentally.	
8.	Finding of Space audit report	

9.	Check that space rent and land license fee is billed as per rates prescribed for the station and escalated annually at the prescribed rates (bills raised as per space audit.)	
10.	Quantify the loss of revenue, if any, due to not taking timely action for award of new contract vis-à-vis extension of existing contract.	
11.	Non billing/lack of Agreements.	
12.	SD available vs. O/s dues statement.	
13.	Adhoc extensions granted. Extension beyond six months, if any, is approved by the Chairperson	
14.	Whether any of the facility remaining unutilized resulted in loss of revenue to AAI,	
15.	Periodical checks are carried out to ensure that rates being charged and the service being provided through such facilities are as per terms and condition of license agreement	
16.	Quarterly report of defaulting contractors is sent to RHQ/ CHQ.	
17.	Submission of MIS – to Finance and Directorate of Commercial at RHQ/ CHQ are made as per the schedule.	

3. Joint Venture and Tariff Cell

S.no	Particulars	Audit Observation
1.	Review the receipt of monthly revenue share from Mumbai and Delhi	
2.	Review the report of independent auditor	
3.	Review Government Audit observations	
4.	Check the compliance of various provisions of OMDA/MOU/Agreements	
5.	In case any bill is to be raised for deployment of AAI staff verify whether it has been done and realised	
6.	Review the dues from JV companies. Comment if delayed abnormally.	
7.	Check the tariff proposals of all major airports are prepared correctly and submitted to AERA in time	
8.	Vouching of payments are to be verified covering all supporting documents, approvals, up-dation in the accounting system, taxation, remittance , reconciliation of fund /amount received under JVC terms and conditions & any related compliances as per OMDA and any deviation from the OMDA Clause and its implications	

4. Pay and Allowances and Other Staff Cost/Human Resources Management

S.no	Particulars	Audit Observation
1.	Scrutiny of Advances and Compliance with reference to the Relevant	

	guidelines/rules.	
2.	Maintenance of Leave Records and Service books of employees including leave encashment.	
3.	Compliance of Documents/Mortgage Agreements for Advances.	
4.	Scrutiny of Pay Fixation of Employees.	
5.	Recovery of License Fee towards Electricity/Housing Colony as per the rules.	
6.	Adjustment of TA/DA advance etc., in time.	
7.	Recovery of advances as per sanction.	
8.	Updation in SAP system.	
9.	Delay in staff payments/claims.	
	MANPOWER	
10.	Checking of fixation of basic pay on promotion, revision of basic pay in disciplinary action, subsistence allowance and other allowances sanctioned time to time and pay fixation of new recruitments etc.	
11.	To check the details and documents submitted by the new recruitments executives/ non-executives	
12.	To check the records of vacancies to be filled up by promotion of existing employees and report thereof	
13.	To check the records of transferred employees as transferred and not released and report thereof	
14.	To check the cases of retirement on medical ground and female VRS and to check that the competent approval is obtained	
15.	Whether photographs of the employees have not been affixed and attested?	

16.	Whether date of birth and all other columns have been filled up?	
17.	Whether any case is pending for age or qualification dispute	
	ATTENDANCE	
18.	To check that the Bio-Metric attendance system is in operation and pay sheets are prepared after taking attendance directly through system and without manual interference, if any to report. If manual to check that attendance is marked daily and cross totalled are made in the attendance register. The attendance register is signed daily by the authorized person.	
	LEAVE RECORDS	
19.	To check that the leave records are maintained in the statutory format.	
20.	To check that the balances of leave are correctly carry forward and added for the current year as per eligibility, leave availed are correctly recorded	
21.	Leave availed is supported by applications and duly sanctioned.	
22.	To check that the leave register is updated and corrected regularly and not once a month.	
23.	To check the instances where leave has been availed but having no leave balance	
	OVERTIME AND REST DAY WORKINGS RECORDS	
24.	To check that proper record for overtime is maintained, specifying the engagement of hours with reasons	
25.	To check that the OT sanctioned is within the delegated powers.	
26.	To check that the OT/Rest Day wages paid have been duly sanctioned	

27.	To check the instances where employees have been engaged on over time continuously for more than eight hours	
	L.T.C. RECORDS	
	SALARY & WAGES AUDIT	
28.	To check that the provisions of NCWA in case of non-executives and in case of executives -Executive Pay Revision are followed in preparation and payment of wages and salary	
29.	System & transaction audit to be carried out on sample basis in respect of each element of salary & wages paid and to report weaknesses and deficiencies in internal control	
30.	Checking of all deduction, recoveries and adjustments are made and reconciled e.g. CMPF, Family Pension and 2% Pension, HBA, conveyance loan etc	
31.	Checking of pay fixation arising out of promotion/up-gradation, annual increment and stagnation increment and on implementation of NCWA and Executive Pay Revision as and when due. Also to check arrears arises out of such fixation/ revision	
32.	To confirm that discontinuation of billing of departed employees is made in the same month and no payment through system is generated thereafter	
33.	To check that the all terminal benefits have been settled and paid to superannuated/ resigned employees, any pending case to report.	
34.	Whether employees have necessary approval for joining after long absenteeism, if not to report	
	ADVANCES TO EMPLOYEES	

35.	To check that the advances are adjusted and in case of recovery the same is regularly done, no second advance unless first one is adjusted	
36.	To check the schedules of advances under various heads duly tallied with the balances of General Ledger	
37.	List of advances (other than House Building and Conveyance advance) outstanding for more than three months, more than 6 months, more than 1 year, more than 2 years with Date of advance & reason for non-adjustment	
38.	To check that the interest on House Building and Conveyance advances has been calculated correctly and recovered regularly	
	OTHER PAYMENTS	
39.	Checking of other expenditures like TA, Transfer TA, LTC, Medical reimbursement, medical reimbursement to retired employees. has been made as per the relevant circulars of the company and if any irregularities to be reported	
40.	To check the Performance Related pay (PRP) is calculated correctly and paid similarly production incentive if any	
	STATUTORY PAYMENTS& RETURNS	
41.	Verification of receipts/acknowledgements for the payment of statutory dues like Income tax ,	
42.	To check that the statutory dues have been deposited in time and reconciliation of collections/receipts as the case may be and payments of statutory levies and if any penalty due to late payment to report.	

43.	To check that all Statutory Returns have been filed in time, in case not complied with report.	
44.	To check that all statutory deduction made from the bills of contractors are deposited to the appropriate authorities within the time schedule like PF, ESI etc. To prepare a status of old pending cases at various levels and report on action being taken /necessary including suggestion on how to ensure that litigation is reduced.	

5. CPF, Gratuity and Pension

S.no	Particulars	Audit Observation
	Employees Provident Fund	
1.	Verify whether CPF accretions are correctly calculated and claimed from AAI	
2.	Check whether all records required as per EPFO guidelines are maintained and up to date	
3.	Check whether employer's contribution correctly calculated and credited in the accounts.	
4.	Check whether Investment of funds are carried out regularly	
5.	Verify whether interest during the year is estimated correctly and informed to the trust.	
6.	Verify whether all the returns as required by EPFO are sent in time	
7.	Test check the options for pension (A or B) correctly noted and recovery is being done accordingly.	

8.	Check whether refundable advance are granted only for the specified purpose and as per entitlement.	
9.	Test check payments and receipts in the books.	
10.	Test check and identify any delays in the disposal of loan application	
11.	Check whether interest is allowed only up to 3 years in the case of inactive ECPF accounts	
12.	Check whether the amount payable/receivable to/from AAI are reconciled	
13.	are no un reconciled balances in the accounts	
	GRATUITY	
14.	whether actuarial valuation of Gratuity liability is being carried out, Verify whether the additional amount required based on the actuarial valuation is received from AAI	
15.	Verify whether the amount received is invested in the various schemes as approved by the Board.	
16.	whether the insurance policy for the gratuity for the remaining years (death cases) is current and renewed in time.	
17.	whether any delays are there in settlement of claims	
18.	Analyse the reasons for the delay in specific cases and suggest remedies	
19.	Review the pending cases	
	PENSION:	

20.	Test check whether the pension contribution is correctly done as per option and are remitted to EPFO in time	
21.	whether the pension cases received from HR are processed and sent to EPFO in time	
22.	Test check the calculation for the pension due	
23.	Analyse the pending issues if any with EPFO	

6. Financial Concurrence

S.no	Particulars	Audit Observation
1.	The scope of the work in the proposal has been approved by the Competent Authority as per DOP	
2.	The budgetary quotation has been obtained from more than one party and average of the same is considered for estimates. The abnormally low and high budgetary quotes need to be ignored for average purpose.	
3.	The proposal for a composite work/project including all the components related to the scheme e.g. civil & electrical works, equipment's, etc. has not been split up.	
4.	Budget head for the proposed scheme in the approved Capital Budget (Commitment) has been identified and the entire funds are available under the head in the year	
5.	If insufficient or no funds are available for the scheme proposed, necessary re-appropriation of funds has been	

	proposed from the Capital Budget (Commitment) as per applicable DOP	
6.	In case, the proposal is in replacement of the existing assets, the survey reports of the existing assets have been duly prepared and approved by the competent authority as per the DOP	
7.	Technical Sanction does not exceed by more than 10% of the amount of the corresponding amount in the AA & ES. In case any specific mode of procurement process is indicated while seeking AA & ES, the same has to be maintained.	
8.	The documents & terms and conditions of NIT are the standard Documents of the AAI and are approved by the competent authority. Any deviation from the standard NIT/ works manual has been brought out clearly by the concerned directorate and approval of the competent authority obtained after bringing out the reasons there for.	
9.	Justified cost was prepared, kept in a sealed cover and has been opened at the time of opening of the tenders.	
10.	The Earnest Money Deposit (EMD) has been submitted by the bidders as per the terms of the NIT	
11.	The tenders have been opened on date and time as scheduled in the NIT.	
12.	Price bids of the technically qualified offers have been opened by the duly constituted price bid opening committee after the approval of the competent authority for doing so (in case of two bid, techno-commercial-	

	system).	
13.	The Comparative Statement has been signed by a competent officer of the concerned directorate. The arithmetical accuracy of the offers and the Comparative Statement have been checked and found correct.	
14.	The offer of the lowest bidder normally does not exceed by more than 5% of the justified cost. In case the lowest offer exceeds 5% of the justified cost, negotiation has been proposed to bring down the price to a reasonable level	

7. Payment of Engineering Works Bills/ Accounts

S.No	Particulars	Audit Observation
1.	Scrutiny of Tenders from NIT to award a Work.	
2.	Scrutiny of bills of the contractor in Terms of the Conditions of the Contract.	
3.	EMD amount, Security deposit, tender fee, timely deposits in to AAI account, as per the NIT.	
4.	Grant of extension of time for the contract to be correlated with the hindrance register at site.	
5.	Principal Approval for extra & deviated items in the contract from the appropriate authority.	
6.	Statutory Compliances like EPF, ESI etc are complied with by Contractor before release of payment.	
7.	Completion Certificate/All approval for deviations in the contract are duly approval before release of final payments.	
8.	Review of CWIP and Completed Works are put to use.	

9.	Details of the Work held up/delayed due to non-availability of site/drawings/requisite approvals after the award of work.	
10.	It covers all construction works under capital head, revenue works and turnkey contracts etc.	
11.	To check that the Civil Engineering Manual / Contract Management Manual /Schedule of Rates are complied with in finalizing the relevant tenders	
12.	To check that no attempt has been made to split the tenders to keep the value of the contract within the delegated powers of the approving authority	
13.	To check that the works awarded have been completed within the scheduled time, if not to check that the competent approval is taken for time extension	
14.	To check that there is no failure on part of the management, due to which the work could not be completed in time resulting in escalation of value of contract	
15.	To check that for completed works, final bills have been prepared in time and accounted for. To check that the details of running and final bills are recorded in the Measurement Book (MB) and any material issued to the contractors has been recovered. Test check of MB with bills. To report where final bills are pending for completed work for more than 3 months. To report for capital works in progress after the completion of work period as per contract.	
16.	To check and report for abnormal variations in quantities as per estimates of awarded work.	
17.	To check that the advances, if any paid against contract are adjusted as per the terms of the contract and in case interest bearing, correct interest has been recovered from the contractor	
18.	To check that the payments have been made as per the terms and conditions of the work order and on the basis of satisfactory performance as certified by the concerned authority; whether recoveries towards security deposit, secured advance, income tax, etc. have been made correctly	
19.	All pending legal cases or any other pending issues and their status	

20.	Approval for grant of extension of time for the contract to be correlated with the hindrance register at site or any other reason	
21.	Utilization of Budget as per the budget allocation	
22.	Status of survey reports of old obsolete/non-moving stores, any other Assets, equipments, furniture and fixture etc	
23.	Disposable action of the items surveyed	
24.	Review of Previous Audit CAG/Internal Audit reports and Para's, corrective action/compliances and status of pending Para's	
25.	Utilization of budgetary support to any Work/Project	
26.	Non-utilization/lapse of fund, if any	
27.	Details of equipments/Assets lying idle or not in use or not commissioned after receipt which resulted in expiry of warranty/guarantee etc	
28.	Insurance coverage	
29.	Space occupied along with items for which eviction proceeding are initiated or yet to be initiated by the Engineering Department and any other unserviceable/serviceable material belong to outside agencies kept or occupying AAI space may also be covered in the Audit	

8. Assets Accounts

S.no	Particulars	Audit Observation
1.	Whether nomenclature of assets adequately indicated in the Fixed Assets Register.	
2.	Any delays in the commissioning of assets.	

3.	Any major impairment of asset.	
4.	Any unutilized/idle assets in the business.	
5.	Classification of assets (Revenue vs. Capital as well as intra asset classification).	
6.	Maintenance of Log Books etc.	
7.	Any old balance in CWIP.	
8.	Checking of Fixed Assets Register having all required details e.g. Quantity, unit, Location, Identification Number, Original Cost, Date of Capitalization, Life of the Assets, Rate of Depreciation, Depreciation for the year, Additions, Deletions, Accumulated Depreciation, WDV etc.	
9.	To check that the Physical verification of fixed assets has been carried by the management during the year and discrepancies, if any observed have been accounted for	
10.	Verification of title deeds of Lands. Whether title deeds of immovable properties are held in the name of Company?	
11.	To check the reconciliation of balance as per Fixed Assets Register and General Ledger and report for any difference	

9. Bank and Cash Transactions and Imprest Account

S.no	Particulars	Audit Observation
	Review of bank books	
1.	Bank reconciliation is done promptly and adjustments are carried out in books, Stale cheques as well as cancelled cheques are written back promptly, Review system of joint signatures of cheques.	

2.	Position of remittances and its booking	
3.	Reversal of unauthorized debits on the Bank statements	
4.	Confirmation of BG/FDR validation/timely renewal and Maintaining of records etc	
5.	Payment through Electronic modes i.e.RTGS/NEFT	
6.	Confirmation of Interest amount credited and Taxes deducted on time , if any	
7.	Incorporation and confirmation of Tax entries and vouching.	
8.	Maintenance of cash book and cash verification including position of soiled notes.	
9.	Position of remittance to and from RHQ/CHQ.	
10.	Insurance coverage of cash chest/cash in transit.	
11.	Tax to be paid through E-payment.	
12.	List of offices/ units entitled for keeping the imprest cash specifying the amount approved by the competent authority.	
13.	The limit of the imprest amount is fixed based on the basis of average monthly actual expenditure of the previous year.	
14.	Accounts are rendered on monthly basis within time schedule. Normally, not more than one advance should be outstanding before any further release.	
15.	Any amount disallowed at RHQ remains as advance till final settlement.	

10. Compilation of Accounts

S.no	Particulars	Audit Observation
1.	<p>Scrutiny of Vouchers</p> <p>All the payment and receipt vouchers, journal vouchers are serially numbered; properly authorized by the designated/competent authority; and incorporated in trial balance for the respective month.</p>	
2.	<p>Review of Trial Balance and Scrutiny of Ledger</p> <p>Irregular balances are not appearing under any head of account and prompt action is taken to rectify such balances.</p> <p>Compilation section reviews the trial balance regularly for rectification of operation of wrong code heads and misclassification by different sections.</p> <p>Trial balance contains all liabilities pertaining to the period.</p> <p>Schedules and link sheets are reconciled with the trial balance.</p> <p>Appropriate records are built up for depreciation, etc. as required for income tax calculations.</p>	
3.	<p>Capitalization of Assets: Capitalization is carried out in terms of the Capitalization Policy of AAI</p>	
4.	<p>Review of Subsidiary Records</p> <p>Accounts are prepared in the specific format approved by CAG; and accounting policies, accounting standard, etc. are complied with.</p> <p>Report instances of non-compliance of accounting policies.</p>	

5.	Deposits with others Action is taken to get the refund of deposits where they have become refundable.	
6.	Earnest Money and Security Deposit by Contractors	
7.	Deferred Credits/ Debits	
8.	Liabilities and Sundry Creditors	

11. General Administration

S.no	Particulars	Audit Observation
1.	Where payments of electricity and water bills, are controlled in the Administration section	
2.	Postage account is properly maintained, postage on letters and parcels is verified by officer in charge at least on a test check basis	
3.	Checking of hiring of taxis and booking of rail and air tickets as per AAI Policy	
4.	Checking of hotel accommodation booked for employees as well as official guests of the company as per AAI policy :	
5.	Where Administration section is responsible for purchase, custody and maintenance of miscellaneous assets comprising furniture, office equipment electrical fittings to buildings, etc., verify as per AAI policy	
6.	For Stock records- verify that the Issues are authorised by a	

	designated officer. Signatures of the recipient with dates are obtained. Replacement policy for office furniture etc., Issue of furniture is need based., The annual maintenance contracts of office equipment are renewed without any break with the manufacturer at negotiated rates.	
	For in- Patient treatment see that	
7.	Whether guidelines for empanelment of hospitals are issued to all the concerned regions/ units. A Committee consisting of representatives from Union/ Officers Association Guild, Officer in charge of Administration, Medical Officer, representative from Finance and one more senior officer from any discipline is constituted for visiting the Hospitals to check the facility and obtain tariff. The rates are negotiated by the committee. The rates of the Institutional Hospital should be taken as indicative in the absence of AIIMS rates.	
8.	Agreements are signed with empanelled hospitals and Tariff agreed upon. Printed tariff of the hospitals is seen to check reasonableness.	
9.	Treatment at non-empanelled hospital is approved on case to case basis.	
10.	Credit facility is provided by the hospital to the employees and dependents	
11.	Timely intimation is received from the employee for admission in the hospital.	

12.	Whether routine inspection is being carried in the empanelled hospitals	
13.	Allotment of quarters to officers/ staff posted at HQ: Allotment quarters is as per the eligibility and allotment rules	
14.	Hiring of Vehicles (wherever applicable) verify that: Procedure for empanelment of agencies for providing vehicle is in order	
15.	Empanelment of Hotels for accommodation purposes verify that: While empanelling, hotels of different categories, i.e. Three Star, Five Star, etc., have been included to accommodate all the levels of officials as per their entitlement	
16.	Compliance of guidelines on the Implementation of official Language (Hindi).	
17.	Statutory compliance in respect of contract labour under the provision of EPF and Miscellaneous provision Act 1952 in respect of contacts.	
18.	Compliance of various manual Provisions on the subject.	
19.	Details of equipment/assets lying idle or not commissioned after receipt, resulting in expiry of warranty.	
20.	Insurance coverage of assets.	
21.	Lost and found items and action taken-Committee formation for Yellow Metal, deposit of Currency with Finance, safe custody disposal.	
22.	Review of previous internal audit, Govt Audit Report (Phase Audit) and correction action /compliance of assurance given to audit.	

23.	Review of compliance of vigilance report and space audit report.	
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Land Acquisition

S.no	Particulars	Audit Observation
1.	Area of land under possession and their title's deed.	
2.	Area of land under encroachment and action taken for eviction.	
3.	Area of land under lease.	
4.	Whether the rates charged as per AAI orders?	
5.	Currency of Agreements.	
6.	Digitalization of land records.	
7.	Legal Issues – Review Pending	

Material Management

S.no	Particulars	Audit Observation
1.	Scrutiny of Procurement proposals.	
2.	Maintenance of Store Ledgers.	
3.	Lost and Found registers vis-à-vis physical availability of the items.	
4.	Status of Survey reports of Old Obsolete/ Non-moving Stores.	

5.	Disposal action taken on the item surveyed.	
6.	Performance, utilization and maintenance of equipment's, telephone and related payments.	
7.	Maintenance of assets registers and equipment's logbooks.	
8.	Review of non-moving & accumulated stores & equipment's.	
9.	Review of stores ledgers maintained, system of receipts, issue	
10.	To check that A.M.C's exists to protect the hardware and software installed	
11.	To check the document retention policy to eliminate the problem of extracting information from computer file due to lack of back up of past records, exists or not.	
12.	To check that the backup of data is being taken regularly and kept as per the policy of the company and carried out by the designated and authorized employees	
13.	Whether there is a system of identifying and disposal of e-waste?	

MT,Fire Department

S.no	Particulars	Audit Observation
1.	Procurement /transfer of new vehicles and its accounting.	
2.	Maintenance of logbook, history sheet, consumption of diesel and petrol for each vehicle.	
3.	Status of pending survey reports of vehicles & equipment.	
4.	Fire Department	

Publicity and Public Relations Department

S.no	Particulars	Audit Observation
1.	Checking of Budget for publicity and Public Relations department	
2.	Checking of Tender for empanelment of agencies	
3.	Checking Stock register for exhibits	
4.	Checking Approvals for advertisements	

Project Expense

S.no	Particulars	Audit Observation
1.	Checking of preparation of estimates.	
2.	Review of the procedure Followed for review of the projects activities with the scheduled activities, any delay in the project is timely informed to the management & time extension can be obtained from the client.	
3.	Ensure that expenditure are properly allocated and apportioned	
4.	Project profitability statement	
5.	Reports on outcome of the project	

Operational Expenditure

S.no	Particulars	Audit Observation
1.	Departmental advance	
2.	Regulation of Imprest Account	
3.	Stores Bills for Indigenous purchases	
4.	Bills for imported supplies	
5.	Advances to Suppliers	
6.	Payments to foreign Consultants/Collaborators	
7.	Payments to Hospitals	
8.	Payment for Hotel accommodation/hiring of vehicles/contract for providing tickets for travelling	
9.	Departmental Advance/Imprest recoupment-records of finance	
10.	Insurance	
11.	Claims Cases	
12.	Journal Vouchers	
13.	Security Expenses	
14.	Miscellaneous Payments	
15.	Suspense and other statistical registers	

IT Department

S.no	Particulars	Audit Observation
1.	To check that A.M.C's exists to protect the hardware and software installed	
2.	To check that all software installed are fully utilized, if not to report	
3.	To check that the company is having approved IT strategy/plan	
4.	To check the existing software in the operation are fully utilized e.g. financial accounting, sales accounting, personal information, pay roll, material/inventory management etc	
5.	To check the areas, where the inbuilt check exists in the computer environment and needs to be reviewed	
6.	To check the document retention policy to eliminate the problem of extracting information from computer file due to lack of back up of past records, exists or not.	
7.	To check that a system of proper documentation of software program exists	
8.	To check that corrections made in master data are done by authorized person and complete record centrally in computer department is being kept and having the approval of head of System department	
9.	To check that the backup of data is being taken regularly and kept as per the policy of the company and carried out by the designated and authorized employees	
10.	Whether there is a system of identifying and disposal of e-waste?	
11.	To check the verification of creation of master records of employees transferred in /newly joining during the month & elimination of master records of employees, who have left the organization during the month on account of transfer, retirement, resignation, death, dismissal, removal, etc., if not to report	
12.	To check the anti-virus software is installed and working effectively	
13.	To check schedule of authority (SOA) and ensure that the delegated has sufficient control for discharging his responsibilities	

14.	To check and ensure that hardware access control have fully been implemented so that remote user has proper authority to see, create & delete data and confidential/ payment related data, if shared, are encrypted or not, if not to report	
15.	To check and report the existence of software password control along with periodic modification are in operation	
16.	To check the existence of disaster recovery and business continuity plan along with periodic testing and review of the procedure	
17.	To check the existence of software base control to block the access immediately after cessation of service like superannuation/ dismissal/ death/ termination etc	

Fund Management & Investment

S.no	Particulars	Audit Observation
1.	Utilization of Fund:	
2.	Checking of budgetary control for indenting, release and utilization of funds under major heads	
3.	Checking of cash receipts and payments and reasons as why in cash and not through digital mode/bank	
4.	Checking of unsettled amount returned by bank on failure of RTGS/NEFT	
5.	Checking of payment made through account payee cheque or demand draft, whether approval from competent authority is taken	
6.	Checking of bank reconciliation statement and report if any unreconciled amount lying unadjusted for more than one month	
7.	Payments to contractors and suppliers are made in serial/chronological order, any deviation report thereof	
8.	Bank and cash book is signed by the authorized signatory on daily basis, if not report thereof.	
9.	Checking of bills as per Supply/Work Order/Agreement/Manual on test check basis and if any deviation report thereof	

10.	<p>Verification of Investment of Surplus Fund: Whether AAI Investment Policy, as approved by the Board is being followed? Opportunity of Investment of surplus fund in best possible alternatives. Timely realization of Investments and credit to proper accounts. Reinvestment after maturity of the Term deposits/Mutual funds in time. Timely investment of surplus fund and report if any idle fund not invested. Checking of Fixed Deposits physically and with the banks statements and interest accrued certificates are collected quarterly and accounted for, if not report thereof.</p>	
11.	<p>Checking of Bank draft/Bankers Cheque, received towards EMD and Security Deposits from contractors/ suppliers are accounted for and deposited timely in the bank, if not report thereof</p>	
12.	<p>Bank Guarantee: Checking for- To check the procedure regarding acceptance, custody and disposal of bank guarantee etc. in accordance to the provision laid down under Finance manual send time to time guidelines issued by the management. Whether Bank Guarantee submitted against security deposit and performance guarantee has sufficient coverage for period of work? Whether Bank Guarantee has been properly recorded and realized in case of default? Whether genuineness of Bank Guarantee has been confirmed as per prevailing rules by the issuing bank and verified on SFMS platform?</p>	
13.	<p>Report on Trade Payables outstanding more than 3 months</p>	
14.	<p>To check that the cashier is authorized to operate cash has been appropriately covered by Fidelity Guarantee Insurance and adequate Insurance for cash-in-safe & cash-in-transit is taken.</p>	
15.	<p>To check that the amount of laptop/tab value (WDV) with perquisite tax has been realized from the executives on superannuation/ resignation/ termination</p>	
16.	<p>To check that the relevant rules and regulations are followed on implementation of GST, as and when the law will come into force</p>	

Statutory Compliances

S.no	Particulars	Audit Observation
1.	Compliance with all statutory rules & regulations with particular emphasis of Service Tax/ TDS /GST (WCT)/EPF/ESI etc and timely submission of returns thereof.	
2.	Payments for input services are supported by registration number etc of the party.	
3.	Claims are raised on the parties at prescribed rates.	
4.	Input credit for GST tax is correctly availed.	

Legal

S.no	Particulars	Audit Observation
1.	Pending legal cases and their present status.	
2.	Efforts taken to close old cases.	
3.	Pending cases under PPE act and their present position.	
4.	Payments to lawyers are as per approved rates.	

SAP System

S.no	Particulars	Audit Observation
1	Verify that access to critical system (application, operating system and database) functions is appropriately restricted on an as-needed basis	
2	Super-user profiles, i.e. SAP_ALL and SAP_NEW are not assigned to any user id	
3	Default SAP Accounts are locked and their default passwords are changed	
4	Privileged (super-user) user access at the application, OS, database and network level is approved	

5	User accounts that support internal processes, interfaces, job schedules, etc. are defined as system accounts (user types 'B' or 'C') to prevent individuals from using those accounts	
6	Remote access (VPN, Web, etc.) is appropriately restricted and monitored	
7	Checking of General Ledger • Sales – Receivables • Purchase – Payables • Inventory • Fixed Assets • Payroll	

Income Tax and GST

S.no	Particulars	Audit Observation
	The status of all pending cases	

- Income Tax and GST returns
- Calculation and reconciliation statements
- TDS certificates
- Assessment orders
- Appeal files
- Files relating to customs Duty Exemption certificate
- Cenvat Register

CSR

S.no	Particulars	Audit Observation
	As per the regulations the company will set aside, for annual CSR activities, an amount equal to 2% of the average net profits of the Company made during the three immediately	

	preceding financial years. Any unutilized CSR allocation fund of a particular year, will be carried forward to the next financial year i.e. the CSR budget will be non lapsable in nature.	
	The tax treatment of CSR spent will be in accordance with the Income Tax Act, 1961 as may be notified by the central board of Direct taxes	

Insurance, Freight & Transportation

S.no	Particulars	Audit Observation

BDC

S.no	Particulars	Audit Observation

Security, CISF and Safety

S.no	Particulars	Audit Observation

License Department/State Office

S.no	Particulars	Audit Observation

RCS

S.no	Particulars	Audit Observation

Telephone/Mobile/Fax or Any other mode of Expenses

S.no	Particulars	Audit Observation

Corporate & Tax Planning

S.no	Particulars	Audit Observation

Format of Audit Report

Cover Page

Internal Audit Report

Of (_____ Airport)

For the Period _____ to _____

Conducted by:

From _____ to _____

Date of Issue: _____

Audit Report

1. Introduction:

- (a) Name of the Auditors : _____
- (b) Name of the Unit audited : _____
- (c) Period covered under the audit : _____
- (d) Brief description of the Unit : _____
- (e) Time period allotted (CAs) : _____
- (f) Time taken : _____

2. Objective & Scope:

The objectives of the audit are:

A. Risks:

- (a) To identify the key risk areas
- (b) To identify Severity & seriousness of these risks
- (c) Suggest Mechanism for mitigation of these risks

B. Manuals / Procedures:

- (a) To identify deviations from procedure/rules
- (b) To identify gaps in Manuals standards/best practices etc.

C. Controls:

- (a) To Evaluate the adequacy of controls
- (b) To Evaluate the effectiveness of controls
- (c) Recommend new controls wherever required.

Scope of Audit:

- (i) The scope of the audit conducted department wise.

Methodology Adopted :

Should explain the methodology adopted in conducting the internal audit i.e., Personal Discussion, Observations, sampling, sampling size used including the number of records verified and the type of records etc., the checklists used if any.

3. Audit Observations : Each Audit observation to contain the following particulars:-

(1) Objective :

To which audit objective this observations/areas relates to may be specified.

(2) Observation :

What is the existing condition?

What is the deviation?

Deviation from what procedure / rule etc.

(3) Effect / Consequences:

What is the impact of the observation on the internal control system and significance of the deviation?

(4) Corrective Action and Recommendation :

What is the corrective action required. Any suggestion / recommendation for avoiding the recurrence of the situation.

4. Recommendations:

Any other recommendations by the Auditor not covered in the (Para 4) in the above for strengthening and improving in the effectiveness of internal control and procedures.

5. Conclusion : Whether the internal controls over financial reporting are adequate and effective:

(i) For ensuring orderly and efficient conduct of the operations.

(ii) Adherence to the Company's policies.

(iii) Safeguarding its assets

(iv) Prevention and detection of frauds & errors.

(v) Accuracy and completeness of accounting records

(vi) Fulfilment of legal obligations.

6. Status of previous audit paras

AUDIT REPORTS REGISTER

Name of Region:

Sl. No	Date of Receipt	Name of Airport	Name of Auditors	Year (FY)	File No	Remarks
---------------	------------------------	------------------------	-------------------------	------------------	----------------	----------------

INTERNAL/SURPRISE AUDIT REGISTER

A register of internal audit/surprise audit conducted may be maintained with the following details

- 1. Serial No.**
- 2. Name of Region/airport/unit**
- 3. Audit conducted by:**
- 4. Financial year under audit**
- 5. Date of receipt of report**
- 6. Date of put up for approval**
- 7. Date of approval**
- 8. Date of bill forwarded**
- 9. Date of payment**
- 10. Date of communication to unit for compliance/action**
- 11. Remarks**

MIS on AUDIT PARAS

Name of Region _____

MIS on internal/surprise audit as on _____

Opening Balance	Received during the month	Processed during the month	Closing balance	Remarks
--------------------	---------------------------------	----------------------------------	--------------------	---------

A. Audit reports received during the month

Sl No	Date of Receipt	Name of unit	Audit period	Name of Auditors	Remarks
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B. Audit reports processed during the month

Sl. No	Date of Report	Name of Airport	Audit period	Name of Auditors	Date of approval
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C. Audit reports pending as on date

Sl. No.	Date of Report	Name of Airport	Audit period	Name of Auditors	Reasons for pending
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ANNEXURE – III

Internal Control Questionnaire

IMPREST CASH

1. Is Imprest cash maintained on:
 - i) Imprest basis? &
 - ii) limited to reasonable amount
2. Is it handled by only one person whose duties are distinct from other cash receipts and disbursements?
3. Is petty cash kept separate from cash from other sources (e.g. cash receipts, unpaid salaries, etc.)?
4. Is it physically verified periodically by

a senior officer not connected with the custody or recording of such cash transactions?
5. Are insurance covers relating to cash in transit and cash in hand/chest adequate?
6. Does the system prohibit payment of cash for transaction which may normally be paid by cheque?
7. Are all payments supported by vouchers?
8. Are such vouchers cancelled upon re-imburement to prevent re-using?
9. Are such payments duly authorized and approved?
10. Are re-imburement cheques drawn only in favour of the petty cashier (custodian)?
11. a. Is prior approval of a responsible official required for paying cash against employee's

cheques?

b. Are these cheques banked promptly?

12. Are stamps, money order forms, Hindi and other stamp papers, etc, reimbursed on imprest basis?
13. Are stamps affixed by franking machine only?

CASH AND BANK RECEIPTS

1. Is inward mail opened by persons not connected with handling cash or the Accounts Department?
2. Is the inward mail date stamped?
3. Is there a detailed record of receipts prepared?
4. Are all cheques specially crossed by employees opening mail?
5. Are bank deposits prepared and made by someone other than those responsible for cash receipts and / or personal ledger?
6. Are duplicate (or counter foils of) receipted deposit slips received from the bank?
7. Is there any comparison of items listed on the duplicate (or counterfoils of deposit slips) with the amounts of cheques recorded in the cash receipts records?
8. Are receipts given for over-the counter collecting?
9. Is there reconciliation of such proofs of collection with amounts banked?
10. Are collections of Airports deposited in collection bank accounts, subject to

withdrawal only by the head Office?

11. If collections are made in cash, have serially numbered receipts been.....?
12. Is there a system of issuing permanent receipts in lieu of the Temporary/Provisional receipts issued?
13. Are such collections promptly received and banked?
14. Are the receipt forms:
 - a. serially numbered?
 - b. kept in safe custody?
 - c. controlled by register?
 - d. unused stocks checked regularly?
 - e. made out by one employee and dispatched by another?
 - f. accounted for, including those cancelled?
 - g. in respect of partially used receipt books not intended to be used, cancelled?
15. Are cancelled receipts preserved?
16. Are post-dated cheques received? If so are they held in safe custody until deposited?
17. Are such cheques entered in a separate register?
18. Is the opening of bank accounts authorized by the Board of Directors?
19. Are sundry items, such as interest, commissions, etc., regularly checked by a responsible official to satisfy himself that correct amounts are received?
20. Is the cash balance verified frequently?
21. Incoming money orders, VPP receipts etc:

- a. Are they signed by any official other than the cashier?
 - b. Are they listed immediately?
 - c. are such lists compared with the Cash Book regularly?
22. Are the cashier's duties taken over for a few days, by someone else, occasionally?
23. If a rough cash book is maintained?
- a. Is the fair cash book written up promptly?
 - b. Is the fair cash book checked with the rough cash book, by a person other than the cashier?

CASH AND BANK PAYMENT

1. Does the company's policy prohibit disbursements directly from cash receipts?
2. Are all disbursements made by cheques?
3. Are the names of officials and the limits up to which they are authorized to sign cheques specified?
4. Are all cheques payable 'to order' and crossed 'Account Payee only' except cheques for wages and petty cash?
5. Are cheque protectors used?
6. Are unused cheques under proper physical control?
7. Are cancelled cheques mutilated?
8. Is the practice of signing cheques in bank, prohibited?
9. Are payments made only against original invoices (or equivalent documents)?
10. Are cheques accompanied by vouchers when

presented for signature?

11. Do vouchers contain evidence of examination by persons signing cheques and / or those authorizing vouchers for payment?
12. Is the accounting on the voucher checked at the time of payment?
13. Are all supporting documents properly defaced and identified by cheque number at the time of signature?
14. Is there a method to check if cheques are dispatched immediately?
15. Are remittances by bank transfers or letter of instructions (i.e. TTs, MTs, standing instructions) subject to the same controls as cheque payments?
16. Is there an effective system in force for following up receipts from payees and filling complete vouchers?
17. When 'stop payment' instructions are issued, are the original entries reversed immediately?
18. Is there a schedule of dates in each month for recurring payments such as PF, Tax deducted at source, telephone bills, electricity bills etc.?
19. In respect of bills accepted:
 - a. is there a record of such bills?
 - b. Are they signed by officials authorized to do so?
20. Are bank loans or overdrafts (including temporary over drafts) arranged only by officials authorized by the Board?

SALARIES AND WAGES

1. Are the approved scales of pay implemented?
2. Are there approved schemes for benefits to employees (e.g. pension, gratuity, medical reimbursements etc.)
3. Are the following approved by a competent official
 - a. employment of an individual?
 - b. fixing his starting pay in the company's scales of pay?
4. Are such written approvals communicated to the Accounts Department?
5. Are there written approvals from competent officials for:
 - a. General increases in pay?
 - b. Individual increases in pay?
 - c. Advances of wages?
 - d. Leave availed?
 - e. Leave encashment?
 - f. Re-imbusement of medial and other expenses in accordance with the company's scheme?
 - g. Bonus?
 - h. Gratuity and terminal payments?
6. Are records (service book) kept for each employee showing particulars of:
 - a. Employment?
 - b. Retirement or dismissal?
 - c. Rates of pay?

- d. Increments and promotions?
 - e. Leave availed / encashed?
 - f. Benefits availed under various schemes?
 - g. Specimen signatures?
 - h. details / declaration of dependents?
7. Is there physical control over personnel records?
8. Are identity cards:
- a. issued to all employees at the time of appointment?
 - b. renewed periodically?
 - c. taken back at the time of ceasing to be in service, and before final payment is made?
9. Are time-keeping and attendance recording functions separated from payroll preparation?
10. Is there adequate supervision of employees checking in and out?
11. Is overtime working authorized by a competent official?
12. Does preparation of payroll include:
- a. check of original attendance records?
 - b. check against employment scale of pay records?
13. Are payrolls checked independently By another person?
14. Is the payroll completed in ink or other permanent form before it is approved for payment?
15. Is approval of the payroll given by an authorized official?
16. Is the gross pay for each wage period reconciled with the corresponding amount for

the preceding wage period?

17. If payment is made in cash, is the net amount withdrawn from the bank?
18. Is the net amount payable sorted and tallied, before payment starts?
19. Are employees identified at the time of payment?
20. Are employees' signatures obtained at the time of payment?
21. Are employees advised of their gross pay, deductions and net pay (issue of pay slip)?
22. Is written authority (authorization) from an employee required for someone else to collect his wages?
23. Are surprise checks made at the time of wage payments by a responsible official independent of the wages department?
24. Does the paying official make an immediate record of all unclaimed wages handed to the cashier?
25. Does he obtain an acknowledgement from the cashier?
26. Does a responsible official regularly check unpaid wages?
27. (a) Is a separate voucher obtained at the time of disbursing unpaid wages?
(b) Is the payroll cross referenced to such voucher?
28. Are the unpaid wages periodically re-deposited in the bank?
29. Are deductions from wages properly recorded in control accounts?

PURCHASES AND CREDITORS

1. Is purchasing centralized in the Purchase Department?
 - a. Are purchases made only from approved suppliers?
 - b. Is a list of approved suppliers maintained for this purpose?
 - c. Does the master list contain more than one source of supply for all important materials?
2. Are the purchase Orders based on valid purchase requisitions duly signed by persons authorized in this behalf?
3.
 - a. Are purchases made on behalf of employees?
 - b. If so, is the same procedure followed as for other purchases?
4. Is special approval required for:
 - a. Purchase from employees, Directors and Companies in which Directors are interested?
 - b. Purchases of capital goods?
5. Are purchases based on competitive quotations from two or more suppliers?
6. Is comparative quotation analysis sheet drawn before purchases are authorized?
7. Is the lowest quotation accepted, & is the purchase approved by competent authorized?
8. If the price variation clause is included, is it approved by competent authority?
9. Are purchase orders pre-numbered and strict control exercised over unused forms / numbering system?

10. Are purchase orders signed only by employees authorized in this behalf?
11. Do purchase orders contain the following minimum information:
 - a. Name of the supplier?
 - b. Delivery terms?
 - c. Quantity?
 - d. Price?
 - e. Freight terms?
 - f. Payments terms?
 - g. Any extra applicable?
12. Is revision / amendment of the terms of purchase orders duly authorized?
13.
 - a. Are copies of purchase orders and amendments forwarded to the Accounts and Receiving Departments?
 - b. If 'yes' do the copies show the quantities ordered?
 - c. If 'no' is there an adequate procedure for the Receiving Department to be notified to accept deliveries?
14. Is a list of pending purchase orders compiled by the stores Department at least once every quarter?
15. Are all materials, supplies, etc., received only by the stores Departments?
16. If they are received directly by User Department, is there a procedure of obtaining acknowledgements for the quantity received and the condition of the goods? Is there a system of updating the stores records?
17. Are persons connected with receipt of materials and the keeping of receiving records empowered authority to issue purchase

orders or to approve invoices?

18. Are materials & supplies inspected and counted / weighed or measured in the stores Department?
19. Are quantities and description checked against purchase order (or other form of notification) and goods inspected for condition?
20. (a) Does the Receiving Department deliver or supervise the delivery of each item received to the proper Stores or Department location?

(b) Are acknowledgements obtained from suppliers for goods / containers returned to them?
21. Are all receipts of materials evidenced by pre-numbered Goods Received Notes / materials receipt certificate?
22. Are copies of Goods Received Notes forwarded to the Accounts Department and a list of goods received to the Purchase Department?
23. Are all cases of materials returned, shortages and rejections advised to the Accounts Departments, for raising Debit Memos on suppliers or claim bills on carrier insurance companies, as the case may be?
24. Are all debit notes etc:
 - a. pre-numbered?/ numerically controlled?
 - b. properly recorded (in the financial accounts or in memorandum registers, as the case may be)?
25. a. Are all suppliers' invoices routed direct to the Accounts Department?

b. Are they entered in a Bill Register before submitting them

- to other departments for check and / or approval?
- c. Are advance and partial payments entered on the invoices before they are submitted to other department?
26. Does the system ensure that all invoices and credit notes received are duly processed?
27. In respect of supplies, are reconciliations made of quantities and / or values received, as shown by purchase invoices, with receipts into stock records?
28. Are duplicate invoices marked immediately on receipt to avoid payments against them?
29. If payments are made against duplicate invoices even occasionally, are adequate precautions taken to avoid duplicate payments?
30. Does the Accounts Department match Notes or acknowledgment received as per Q17 and purchase orders?
31. a. Are goods Received Notes and receiving records regularly reviewed for items for which no invoices have been received?
- b. Are all such items, investigated and is provision made for the liability in respect of such items?
- c. Is such review / investigation done by a person independent of those responsible for the receipt and control of goods?
32. Do all invoices bear evidence of being checked for prices, freight terms, extensions and additions?
33. Is the relative purchase order attached to the invoice for payment?
34. (a). Is a special request used for making payments in advance or against documents

through Bank?

(b). thereafter, are the invoices processed in the normal course?

- 35 (a). Are all advance payments duly authorized by persons competent to authorize such payment?
- (b). Is a list of pending advances made at least every quarter and is a proper follow up maintained?
36. Are all adjustments to creditors' accounts duly approved by those authorized in this behalf?
37. Is a list of employees, by designation, with limits of authority in respect of several matters referred to in this section maintained?
38. Are all suppliers' statements compared with ledger accounts?
39. Is there any follow-up action to investigate differences, if any, between the suppliers' statement and the ledger accounts?
40. Is a list of unpaid creditors prepared and reconciled periodically with the General Ledger Control accounting?
41. Is there a system of ensuring that cash discounts are availed of whenever offered?

FIXED ASSETS

Purchases and Disposal

1. Are budgets for capital expenditure approved by the Board?
2. Are approved budgets communicated in writing to :
 - (a). Purchase Department? Department originating the request?

- (b). Accounts Department?
- (c). Are written authorizations obtained for incurring capital expenditure for items included in the Budget?
3. Is the authority to incur capital expenditure restricted to specified officials?
 4. Are purchases of capital items subject to same controls as are applicable to purchases of raw materials, stores, etc.?
 5. Are receipts of capital items subject to the same procedures as applicable to raw materials, stores etc.?
 6. Is there proper check to see that amounts expended do not exceed the amount authorized?
 7. Are supplemental authorizations required for excess expenditures?
 8. Is there an-shed procedure for moving plant and machinery from one location to another?
 9. (i). Is written authority required for :
 - a. scrapping fixed assets?
 - b. selling fixed assets?(ii). Is the authority to permit scrapping / selling of fixed assets restricted to specified officials?
 - (iii). Are limits specified in this regard?
 - (iv). Are sales of fixed assets subject to approved procedures?
 10. Are reports issued promptly in respect of :
 - a. units sold ?
 - b. units scraped?
 - c. units moved from one location to another?

Records

11. Are fixed assets under construction :
 - a. subject to separate control in General Ledger?
 - b. controlled by job number?
12. Is expenditure on wages, materials and stores charged to capital account on reasonable basis?
13. Is there any official responsible for ensuring that allocation of expenditure between capital and revenue is in accordance with the company's accounting policy?
14. Is a register of all fixed assets (including fully depreciated assets) maintained?
15. Is the register regularly written up throughout the year?
16. Is the register periodically tallied with the financial accounts?
17. Is the following information available, in the register?
 - a. Supplier's name
 - b. Date of purchase
 - c. Cost (including additions, improvements, exchange rate adjustments etc.)
 - d. Location and identification number
 - e. Rate of depreciation and estimated life
 - f. Accumulated depreciation
 - g. Estimated salvage value
18. Is a record maintained of equipment used by the company, but owned by others

19. Is there a list of title deeds for the landed properties and buildings?
20. Are title deeds of properties kept in a safe place?
21. If they are lodged as security, are certificates obtained to that effect periodically?
22. Are registration books of vehicles periodically verified?

Verification:

23. Are fixed assets verified periodically?
24. Is there a written procedure for such verification?
25. Does the procedure provide for verification / confirmation of fixed assets with third parties?
26. Does the procedure provide for verification of compliance with the warranties and conditions in the relevant insurance policies?
27. Are reports prepared on such verification?
28. Do such reports indicate damaged / obsolete items of fixed assets?
29. (a). Are discrepancies disclosed by such reports investigated?
(b). Are the records and financial accounts corrected, with proper authority?
30. Are damaged / obsolete items disclosed by such reports, removed from the records and financial accounts with proper authority?

Fixtures, Tools etc.

31. Is there satisfactory control over the

acquisition and write-off of such items?

32. Are there physical safeguards against theft or loss of tools and other movable equipment?
33. Are records maintained for :
 - (a). items treated as stock?
 - (b). items treated as fixed assets?

I

Insurance:

34. (i). Are the following risks covered in respect of building and machinery:
 - (a). Fire
 - (b). Strike, riot and civil commotion
 - (c). Flood
 - (d). Earthquake
 - (e). Nuclear risks
 - (f). Malicious damage
 - (g). War risk

(ii). If the answer to any of the above is negative, is it due to specific decision taken by competent authority?
35. Is there an adequate procedure to ensure that assets acquired between two renewal dates are also covered by insurance?
36. Is there an official who decides on the value for which policies are taken?
37. Are the fixed assets insured at re-instatement basis?
38. Does the official, who decides on the value for which policies are taken, review periodically the adequacy of the insurance cover?
39. (i). Is there loss-of-profit insurance cover?

(ii). Is there machinery-breakdown insurance cover?

(iii). If the answer to (i) or (ii) is negative is it due to a specific decision taken by a senior official?

STOCKS

1. Are stocks stored in the assigned areas?
2. If so, is access to these areas limited?
3. Are stocks insured against the following risks:
 - a. fire?
 - b. Strike, riot and civil commotion?
 - c. hail damage where applicable?
4. If the answer to any of the above is negative, is it due to a specific decision taken by a senior official?
5. Is a record maintained for the insurance policies?
6. Is the record reviewed properly?
7. Is there an official who decides on the value for which the stocks are to be insured?
8. Is the adequacy of the insurance cover reviewed periodically?
9. Are perpetual stock records kept for stores?
10. Are they periodically reconciled with accounting records?
11. Is there a system of perpetual inventory for stocks for stores?
12. Where there is a system of perpetual inventory count:
 - (a). Is there a periodical report of shortages / excesses ?

- (b). If so, are these differences investigated?
 - (c). Are these differences adjusted in the stock records?
 - (d). Is written approval obtained from a responsible official to adjust these differences?
13. Are there norms for stock levels to be held?
14. Is there a periodic reporting of :
- a. slow moving items?
 - b. damaged items?
 - c. obsolete items?
 - d. over-stocked items?
15. Is there a well-laid out written procedure for inventory count?
16. (a). Are stocks physically verified at least once in a year?
- (b). Is this done by a person independently of persons who are responsible for maintaining these records or the storekeeper?
 - (c). Are written instructions prepared for guidance of employees engaged in physical stocks taking to cover :
 - i). proper identifications and arrangements of stocks?
 - ii). Cut-off points of receipts and deliveries?
 - iii). Recording of the condition of the stocks?
 - iv). Compliance with the conditions / warranties in the relative insurance policies?
17. Are the physical inventory records, such as tags, cards tally sheets, under numerical control?
18. Are the clerical steps in the preparation of stock sheets checked independently for:

- i). summarization of quantities?
 - ii). Units rates?
 - iii). Additions?
 - iv). Extensions?
 - v). unit conversions?
 - vi). Summarization of cards and / or sheets?
19. Are the quantities shown in the stock sheets compared with the quantities declared to banks or insurers, where possible?
20. If there are significant variations between the actual stocks and book stocks:
- a) Are they investigated?
 - b) Is a recount made where necessary?
 - c) Is the stock book corrected with proper authority?
22. Are records maintained for :
- a) Scrap available for sale?
 - b) Returnable containers?
23. Does the storekeeper issue materials stores etc., only against Requisition Notes signed by properly authorized officials?
24. Is the stock record periodically checked with such acknowledgements?

BANK BALANCES

1. Are bank statements opened by a person other than the person signing cheques, recording cash and receiving or disbursing?
2. Are the bank accounts reconciled at regular intervals?
3. Is Bank reconciliation statement drawn by a person independent of cash receipt and

disbursement function?

4. Does the reconciler compare each item in the deposit and withdrawal column of the bank statement with amount deposited or withdrawn as shown by the cash records both as regards date and amount?
5. Is there a periodic follow-up of old:
 - i) Outstanding deposits?
 - ii) Outstanding payments?
 - iii) Outstanding stop-payment advices?
6. Are the items under reconciliation reviewed by a responsible official promptly or upon completion?
7. Are confirmations of balances obtained periodically in respect of all bank balances and compared with the bank statement?
8. Is there a periodic review of balances held as security, for letter of Credit, Guarantees, etc. to ensure the need for their continuance?
9. Are Fixed Deposit Receipts held in safe custody?
10. Is there a register of Fixed Deposits showing maturity dates rates of interest and dates for payment of interest?
11. Is there a follow-up system to ensure that interest on Fixed deposits is received on due dates?
12. Is a Certificate obtained from the bank for Deposit Receipts lodged as security?

LOANS AND ADVANCES

1. Does the board resolution authorizing the loans specify

- a) The total amount up to which loans may be made?
 - b) The purposes for which loans may be made?
 - c) Maximum amount of loans which may be made for each such purpose in individual cases?
 - d) The terms on which such loans may be granted?
2. Does the resolution specify the persons who are empowered to make loans?
 3. Are all advances to employees under a scheme duly approved by the Competent Authority?
 4. Do letters sanctioning the loans/advances specify:
 - a) The number and amount of installments payable?
 - b) Rates of interest payable?
 5. Are all variations in the terms duly approved in writing?
 6. Where security is taken against the loans, are the form and adequacy of security reviewed by a responsible official?
 7. Are the loan and security documents :
 - a) Kept in custody?
 - b) Entered in Register?
 - c) Periodically verified?
 8. Is there a review to ensure that installments /interest are received on the due dates?
 9. Are outstanding balances on loans/advances reviewed with General Ledger periodically?

10. Are confirmations of balances obtained periodically?
11. Is there a procedure to ensure that advances for travel and other expenses are cleared within a reasonable period of time?
12. Is specific approval of the competent authority required for drawing an advance while an earlier advance is outstanding?

PRE-PAID EXPENSES

13. Are the balances in prepaid expense accounts reviewed to ensure that they are properly chargeable to future accounting periods?
14. Is there a system to ensure that refunds due on premature termination of contracts are accounted for?

CLAIMS AND OTHER RECEIVABLES

15. a) Is a detailed list kept in the form of a Register or similar record?
b) is the register compared with the financial accounts?
c) Are the outstanding items reviewed periodically?

TAX DEDUCTED AT SOURCE

16. Are the original tax deduction certificates held in safe custody till they are filed with the Tax Department?

DEPOSITS

17. Does the company maintain proper records of deposits made showing:

- a) Name of the authority with whom the money is deposited?
 - b) Amount?
 - c) The period for which the deposit is to be held?
 - d) The mode of re-payment, e.g. whether by refund order or by adjustment against bills?
 - e) The date on which interest, if any, is receivable on the deposits?
18. In the case of refundable deposits, are the original receipts kept in safe custody for production at the time of refund?
 19. Is there a system of follow-up on the deposits which are due for refund?
 20. Is the deposit register tallied with the General Ledger periodically?
 21. Is there a procedure to obtain periodic confirmations for deposits?

TRAFFIC REVENUE

1. By whom is the landing permit authorized?
2. By whom is the credit facility extended to Airlines? (Give details of authorities and limits)
3. Is there a proper system to record the daily flight movements?
4. Are the persons maintaining 'daily flight movement' records independent of invoice processing personnel?
5. Do independent officials review 'daily flight movement' to ensure that they do not include 'Landings' for which no permission has been granted?
6. Are Invoices checked against:

- a) Daily flight movement data?
7. Is the process of checking the invoices, as above carried out by persons independent of those dealing with :
- a) Persons maintaining daily flight movement data?
- b) The processing of invoices?
8. Is the 'Revenue Register' written by persons independent of those dealing with:
- a) Invoice Processing Personnel?
9. Are 'Revenue Register' personnel cash receipts? If not, give details of exceptions.
10. Are the persons maintaining 'energy consumption' records independent of :
- a) Officials authorizing the electricity connection?
- b) Invoice processing personnel?
11. Do independent official review monthly energy consumption' records to ensure that they do not include users for whom no permission has been granted?
12. Are invoices processed by persons independent of those responsible for:
- a) Authorization of electricity connection?
13. Are Invoices checked against:
- a) Monthly energy consumption statement?
14. is the process of checking the invoices as above carried out by persons independent of those dealing with:
- a) Persons maintaining 'monthly energy maintaining statement'?
- b) The processing of invoices?

15. Is there a system of revising the rates in place? If so, what is the frequency of revising the rates or is it revised whenever there is a revision by the electricity authority?
16. Whether the revised rates have been approved by the Competent Authority?

CAPITAL EXPENDITURE

1. By whom is the capital expenditure authorized? Give precise limits of their authority?
2. Is the authorization of capital expenditure properly evidenced?
3. Are works awarded after call of tenders and evaluating offers?
4. Are the job awarding. Inspecting and bill passing personnel different ?
5. Are contractors' progress bill/running bills duly supported by measurement sheets/books certified by supervisory personnel?
6. Are the provisions of Contract Labour Regulations observed while executing the work?
7. Are materials issued to contractors from AAI stores approved by Competent Authorities?
8. Does the contract provide for payment of advance to the contractor against production of bank Guarantee?
9. Does the contract provide for the payment of security deposit by the Contractor?
10. Is there a clause for retention of money in the contract, to be released after lapse of maintenance liability period/ defect liability period from the commissioning date?

11. Are final bills supported by Completion Certificate/ Handing over of assets issued by AAI?
12. Does the Company insist on no Claim Certificate from the Contractor before releasing retention money?
13. Is the authority issuing the No Claim Certificate different from the one awarding the contract? In other words is no Claim Certificate issued after obtaining comment from the user of the asset?

Some important check points to avoid common irregularities or lapses

Filing System

1. Procurement / contract files are very important and sensitive documents; thus there is a need to have a proper filing system with proper page numbering to ensure continuity, avoid arbitrariness in decision making and to avoid insertion or deletion of documents at a later date.
2. Stores needs to be procured with utmost care taking into account the available stock, outstanding dues / supplies, past consumption pattern, average life of the equipments/ spares and new equipments to be installed; the requirement also to be clubbed together to get the most competitive and best prices and should not be intentionally split or bifurcated to avoid approval from the higher authorities.
3. The equipments or spares are properly justified; obsolescence factor should be taken into account i.e. equipment to be purchased should conform to the latest technology available in the market.

Estimates

In order to make a realistic estimate in an objective manner the estimate should be made on the basis of prevailing market rate, purchase prices, IEEMA formula, wherever applicable as the estimated rate is vital in establishing the reasonableness of the prices and the same value is put to tender as indicative prices.

Tenders

In order to give wide publicity, generate enough competition and to avoid favoritism, the equity should be advertised and published in Indian Trade journal and select National Newspapers; tender notices should be sent to all the registered/past/likely suppliers; in case of imported items, copies of the tender notice should be forwarded to Embassies of Indian Missions and Embassies of major trading countries.

In case short term tenders are invited expressing urgency of the requirement, it should be verified that the case was not processed in a very routine and casual manner without any consideration for urgency. In case of short –term tenders due to short duration for supply, the prices are always loaded. This also enables forming cartel by the known suppliers and circumventing the system.

The tenders should be preferably kept open for sale till one day prior to the date of tender opening to give sufficient time to the bidders for getting the tender documents and submitting the officers.

Tender Bid Document

In the bidding document, obsolete, unwanted matter and conflicting and vague provisions resulting in wrong interpretation, disputes and cases of time over runs should be avoided: important clauses relating to earnest money, delivery schedule, payment terms, performance bank guarantee, pre-dispatch inspection, arbitration,, liquidated damages, penalty for delayed supplies, risk purchases are included for safeguarding the interest of the organization and to have indirect financial implications in the evaluation of officers on equitable and fair basis and in a transparent manner.

EMD

To establish the earnestness of the bidder in performing the contract and to avoid withdrawal or modification of the offer within the validity of the bid and to restrict, if not eliminate 'speculative', frivolous' and 'wait and see' bids. EMD needs to be incorporated as a fixed and reasonable amount on the basis of the estimated value of the purchase. The terms and conditions should clearly stipulate that an offer without EMD could be rejected.

Delivery

An acceptable range of delivery period has to be incorporated as a prudent measure. Offers beyond the acceptable delivery period have to be treated as unresponsive and an adjustment per month at a reasonable percentage could be added to the quoted process of the bidders for deliveries later than the scheduled delivery period for the purpose of evaluation.

Evaluation or Loading

Payment terms, delivery period, performance bank guarantee, etc having financial implications need to be specified in an unambiguous manner for evaluation of bids in a transparent manner without any subjectivity

Detailed Technical specifications along with technical evaluation criteria if any, need to be specified in the tender documents in unequivocal terms.

Postponement of tender opening

In order to give equal opportunity to all the bidders and to maintain the sanctity of the tendering system, any change in the terms and conditions, specifications, tender opening date, etc to be notified to all the bidders sufficiently in advance.

Opening of tenders

The opening of tenders in the presence of the Trade Representative by the Tender Opening Committee needs to be scrupulously followed. Each tender should be numbered serially, initialed and dated on each page of the tender; particularly the prices, important terms and conditions, etc should be encircled and initialed in red: alterations if any, should be initialed legibly; any correction, cutting etc observed should be encircled and initialed and the fact the original entry was present in the tender at the time of opening should be also recorded. The statement giving details of quotations received and other particulars like the prices, taxes, duties, EMD, etc. as read out during the opening of the tenders is prepared on the spot.

In case of two bid system to make the system fool proof, the Committee should sign on the envelopes of the price bid and signature of 2 representatives should also be obtained on all the envelopes containing the price bids. Thereafter all the envelopes should be put in bigger envelopes or box and the same should be properly sealed duly signed by the Tender Opening Committee and Trade Representatives.

Purchase Preference to Public Sector Enterprises

The instruction and guidelines circulated by the department to public enterprises for granting purchases preferences to the Central Government. Public sector Enterprises need to be scrupulously followed, as brought out by CVC in the instructions circulated.

Reasonableness of Prices

It is important to establish the reasonableness of prices on the basis of estimated rates, prevailing market rates, last purchase prices, economic indices of the raw material other input costs, etc before award of the contract.

Advance payment and Bank Guarantee

Advance payment needs to be generally discouraged except in specific cases. Wherever payment of advance is considered unavoidable, the same is considered interest bearing as per CVC guidelines dated 18.12.1997; advance be allowed after getting an acceptable BG for an equivalent amount with sufficient validity so as to fully protect the interest of the organization; reasonable time should be stipulated for submission of BG so that the contractual remedies could be enforced if required.

The bank guarantee should be examined with respect to the acceptable format. Any condition deterrent to the organization should be withdrawn before acceptance and genuineness of the BG should be verified from the bankers. Timely action or revalidation or encashment of the BG also need to be taken to protect the interest of the organization.

Performance Bank Guarantee

To safeguard the interest of the organization, a reasonable amount of performance Bank Guarantee valid up to the warranty period for due performance of the contract should be obtained; the validity of the Bank Guarantee needs to be monitored and wherever extension of delivery period is granted, the validity of Bank Guarantee should be properly extended.

Stipulation of Delivery period

Specific delivery period for supply as per the terms of delivery such as FOR station of dispatch or destination and for completion of installation with the necessary provision of LD or penalty clause in the event of delay in supply/installation need to be incorporated in the contract.

Guarantee or Warranty Terms

Detailed guarantee or warranty clause embodying all the safeguards be incorporated in the tender enquiry and contract agreement. In case of installation/ commission of contract, the warranty and guarantee should reckon from the date of installation or commissioning in order to avoid the situation that with the delay in installation of the equipment, the guarantee or warranty expires even before installation of equipment or sometimes a very short period of guarantee or warranty is available.

Amendment of Contract Terms of Specification

After award of contract, amendments or modification having financial implications giving undue benefit to the suppliers / any relaxation in the contract should be

severely discouraged. In exceptional cases where such amendments are considered to be essential, the same should be allowed after taking into account the financial implications and appropriate approval.

Illustrative cases of such relation are

(i) Changes in the specifications like make or model nos., equipment specified in the contract with supply for some more alternative make or model without taking into account the financial implications thereof –Low price alternative, makes or models are being included subsequently in the contract giving undue benefit to supplier;

(ii) Change in payment terms – authorized advance payment when there is no provision in the tender or contract or authorizing higher advance than the stipulated amount;

(iii) Waiver of pre dispatch inspection;

(iv) Waiver of submission of Performance Bank Guarantee;

(v) Change in the destinations without taking into account the benefit of the freight charges

Monitoring of Contract

It is essential to accord priority to the post contract follow up. The delivery period should be extended on bonafide request and not in a routine or casual manner. After expiry of the delivery period or validity of the contract, it should be refrained from exchanging correspondence with the supplier. In case of delay in completion of the supply, the LD to the extent possible needs to be recovered. Wherever the payment are made through LC in case of delay attributable on the part of the supplier, the LC extension charges should be to the supplier account .