

**RAILWAY CONSTRUCTIONS PAKISTAN LIMITED (RAILCOP)**  
**INTERNAL AUDIT POLICY**

**A. SCOPE OF WORK:-**

**Objectives:-**

The overall objective of the Internal Audit is to assist project management with timely information on financial management aspects of the project, including internal controls and compliance with financing agreements, to enable follow-up and take corrective action.

The Internal Audit shall be carried out in accordance with the Auditing Standards and Accounting Standards prescribed by the Institute of Chartered Accountants of Pakistan and will include such tests and controls, as the Auditor considers necessary under the circumstances.

**Coverage of the Audit:**

The Internal Audit shall cover the entire project i.e., covering all sources and application of funds by the Promoters / Clients / agencies as considered necessary for the internal audit. The Internal Audit will also cover all consultancies and contracts that may be entered into.

The Project Financial Statements are expected to include the following:

- a) Summary of Sources and Uses of Funds. Appropriate schedules summarizing uses of funds by main project components, expenditure accounts, disbursement categories and implementing agencies will be included.
- b) Balance Sheet of the Project, showing project assets and liabilities. This statement may also be combined with (a) above, if necessary;
- c) Statement of Claims raised and Credit Withdrawals.

The Internal Audit for the first year will also cover transactions, which occurred before the commencement of the project.

Specific areas of coverage of the Internal Audit will include the following:

- a. An assessment of the adequacy of the project financial management systems, including internal controls.
  - i) The first such review of project financial management systems shall be done in the first quarter of the F.Y.
  - ii) Thereafter this shall be done continuously, and a specific report on this aspect shall be provided along with the Internal Audit Reports, based on the adequacy and effectiveness of Accounting, Financial and Operational Controls, and any need for revision; level of compliance with Established Policies, Plans and Procedures; Reliability of Accounting Systems, Data and Financial Reports; methods of remedying weak controls or creating controls in areas where they are lacking; Verification of Assets and Liabilities, Controls, Security and effectiveness of the Operation of the Computerized System; and
- b. Efficiency and timeliness of the funds flow mechanism to avoid delays for timely implementation of Projects.
- c. An assessment of compliance with provisions of Financing Agreements, especially those relating to accounting and Financial matters.

- d. To check that funds received under the projects are utilized in accordance with the financing agreements, efficiency and effectiveness, and only for the purposes for which the financing was provided;
- e. The Audit check and balance will include methods and records to identify, assemble, analyze, classify, record and report on transactions and to maintain accountability for the assets and liabilities including, the provisions contained in Articles of Association, Memorandum of Understandings, Policies laid down by the government and the Board of Directors from time to time etc.,
- f. The eligibility of expenditures charged to the projects and their correct classifications etc inclusive of the summary statements of expenditures submitted by parties concerned.
- g. Procurement of Goods, works and services have been made in accordance with the PPRA procurement Rules/guideline, duties and taxes where ever applicable, procurement Rules of the projects and financing agreements with Clients/Consultants etc.
- h. All necessary supporting documents, records, and accounts have been kept in respect of all project activities and that clear linkages exist between accounting records, accounts books and the periodic financial reports from the respective functional heads.
- i. Clear linkages exist between the accounting records including accounts books, and the Project Financial Statements.
- j. Adequate records are maintained regarding the assets created and assets acquired by the project, including details of cost, classification of expenses into various project components, identification and location of assets. Carry out physical test verification of assets of the project and comment on its utilization.
- k. The Internal Audit/ auditor is expected to obtain and satisfactorily document sufficient audit evidence to support audit conclusions.
- l. The Internal auditor shall also be responsible for the finalization of the accounts and further assists & coordinate for completion of financial audit by Statutory Auditors/Government Auditors.

**Timing:**

The Internal Audit shall be carried out on a quarterly basis or as and when deemed necessary by the management.

**Coverage of the Internal Audit:**

The transactions shall be verified 100%. The Internal Audit shall cover the entire projects i.e., covering all sources and application of funds as considered necessary for the internal audit. The Internal Audit shall also cover all cost-based consultancy or other contracts that company may entered into. These will be determined with reference to consistent practices and internal policies and with reference to documentations of the projects etc.

**Reporting:**

The Report of the internal auditor shall contain the verified records, pointing out of the deviations, if any, the adequacy of internal controls and the adherence to the procedures, policies, instructions, procurement guidelines, etc.

## **B. SCOPE OF INTERNAL AUDIT:**

The Internal Audit would conduct audit on following documents on awarded project as well as assignments other than projects;-

1. Award of Tender
2. Letter of Acceptance to contractor
3. Purchase Order/Contract Agreement
4. Site Organization chart
5. Review of financial progress of works
6. Site Diaries/MBs from Site Supervisor to Contractor
7. Construction Program received from Project Engineer
8. Progress Report
9. Project Costing Report by General Consultant and comparison with the budget/estimates.
10. Insurance Policies
11. Review of Approval of drawings by Clients/Parties/Departments
12. Tender Evaluation Reports for all works
13. Review of Minutes of Meetings with Contractors
14. Respective Operations weekly report
15. Whether Letter of Acceptance available and properly kept
16. Review of Prices for escalations or reductions and contract sum approved by the clients / consultants / management etc.
17. B.O.Qs / Budgets approved by the management
18. Compare the Estimate Project Cost reported in the Finance Department and Executive Department for any difference.
19. Whether the sub-contracts in existence, as informed by the contractor are in agreement with the terms and conditions of contract document.
20. Documents/ billings were sufficiently prepared and approved
21. Peruse through the contract Request or Purchase Request and Contract Agreement or Purchase Order for proper approval from the Competent Authority
22. Obtain contract document for the project review. Verify and state the contact document posses by the project review.
23. Scope of works and responsibilities clearly defined
24. Obtain the Contract Register which monitors the movement of Progress Billings, Progress Payment Certification and Payment Received.
25. Determine and delay/unpunctuality in payment to contractors if available
26. Review the latest project costing report for any difference in approved financial budget for the project review.
27. Insurance Policies and Performance Bond
28. Insurance Policies valid and available
29. Performance bond collected from sub-contractors
30. Maintenance of Stores & Stocks / Stores & property registers, including Land Acquisition and adequacy of documentation.

## **C. GENERAL REVIEWS TO BE CARRIED:**

- Review and check of Lease Agreements, if any
- Review and check of Labour Records/Salary Records.
- Review and Check of transport contracts.
- Review of monthly cost sheets and to report reasons for wide variations
- Reconcile various Assets / Stores / Stocks registers / Accounts (Cash, Bank, Advances and other Current Assets)
- Review the expenses incurred, apportionment and accounting.
- Review of installation and commissioning of machinery

- Review of contracts entered into with various parties and to ensure that the payments are made in accordance with the contract and that the penalty is levied as per the terms agreed into.
- Review of utilization of fleet of vehicles, comparison of cost of operation vis-à-vis contract transportation
- Review the system of purchases/contracting, listing of vendors, vendor rating, system of preparation of comparative statements,
- Review and report on compliance with provisions of PPRA Procurement Rules, Guidelines, Policies of the Board, Client/Consultant compliance, etc., made there under.
- Review of purchase files relating to capital equipment and other materials
- Audit of all cash and bank payments
- Audit of journal vouchers
- Audit of all purchase vouchers;
- Check of posting in general ledger and other related records wherever applicable
- Review of all purchase orders
- Review of all claims receivables, analysis, and age wise details
- Physical verification of fixed assets/Stocks/Inventories
- Checking monthly Accounts
- Audit of salary, TA and other benefits to employees
- Compliance audit of procedures
- Compliance with various Statutory laws like Sales Tax, Income Tax and other laws
- Review of Income-tax deduction and their remittances
- Checking of Leave Records
- Checking of Vehicle Log Books and consumption of fuel
- Checking of Bank Reconciliation and other Reconciliation statements
- Review of adequacy of Internal Control and Internal Check procedures
- Review of cost records
- Review of Cash Management
- Review of purchase systems
- Review of financial follow-up, security and vigilance
- Review of implementation of suggestion
- Review of Insurance
- Review of Inter Head office and Project Accounts
- Review of Advances paid to suppliers and others
- Review of timely recovery of advances
- Review of Delegation of Powers
- Review and check of Welfare Expenses etc.