

Chapter - 6

Internal Control Mechanism

6.1 Internal controls

Internal control is an important management tool and comprises all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring orderly and efficient conduct of its business, including adherence to policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. A well-defined monitoring mechanism and Management Information System (MIS), reflect the existence of systems to make available timely, adequate and accurate information to the relevant authority in the organisation.

6.2 Deficiencies in the computerised MIS for project monitoring

IREDA has computerised several of its operations. One such computerised application is the PIDMOS (Project Information and Documentation Monitoring System) which was implemented in September 2009 to streamline business processes like application receipt, registration, appraisal, sanction, pre-execution, post-execution, disbursement and monitoring projects upto their financial closure. PIDMOS also serves as a key MIS tool. The Operational Guidelines of IREDA state that PIDMOS is to be used for monitoring of loan sanctions.

Audit reviewed the PIDMOS database and noticed the following deficiencies:

- Data relating to projects sanctioned prior to September 2009 (1776 cases) was not fully captured as key fields like capacity sanctioned (518 cases), loan amount (17 cases) and project cost (1759 cases) were left blank.
- In the status report date-wise implementation schedule was not reflected.
- In five out of 211 test-checked cases the date of sanction of loan was shown as prior to the date of registration of the application. This indicated absence of validation controls in the software.
- The figures of capacity and amount of sanctioned projects disclosed in the Annual Reports of IREDA and that reflected in PIDMOS did not tally. The capacity for 2007-08 to 2011-12 was 3633.48 MW as per Annual Reports and 6219.18 MW as per

PIDMOS. Similarly, the figures of amounts disbursed disclosed in the Annual Reports and PIDMOS for the same period also did not tally. The disbursement amount as per Annual Report was ₹ 5,293.85 crore while PIDMOS showed the same as ₹ 5,276.17 crore.

- While the PIDMOS data shows that 211 projects were sanctioned during the period under review, the Annual Reports indicated that 219 projects were sanctioned.
- There was no uniformity in the procedure for registering loan applications in PIDMOS as certain applications for additional loans were treated as a fresh loan (*e.g.* Project No 1714 and 1715) while in other cases it was treated as a single loan (Project No. 1814).
- In 25 out of 96 cases checked, the scheduled date of commissioning as per project records and as per the MIS report generated by PIDMOS on project status did not match.
- Projects which were closed under OTS were still being shown as ongoing in PIDMOS with the comments “documents for next disbursement awaited”.
- Information regarding loan recovery along with up-to-date interest was not available in PIDMOS.

The above deficiencies in the PIDMOS software rendered the database incomplete and unreliable. Audit also observed that IREDA did not have an approved IT policy.

The Management stated (March 2013 and April 2014) that PIDMOS was implemented *w.e.f.* 11 September 2009. Hence, the cut off period for capturing the data was set as the year 2009. The data for the projects sanctioned prior to 2009 is maintained manually and reports prior to implementation cannot be generated. The implementation schedule would be developed later. During the year 2012, data relating to implementation of the projects was being considered for outsourcing but the same could not materialise. It was further stated that the amounts and capacity of loans sanctioned and disbursed as reflected in the Annual Reports were correct and the PIDMOS data needs to be reconciled. However, system improvement is a continuous process and the points observed by Audit will be constantly reviewed for updation of the system in future, on continuous basis and IREDA would work towards making an IT Policy.

6.3 Operational controls – Deficiencies in the monitoring mechanism

In a financing company like IREDA, strong operational controls, including periodical review of annual accounts of borrowers, updating of basic data of loanee units, periodical physical inspections, etc., are necessary.

Audit observed that the status of project-wise outstanding dues and recovery position was being submitted to the BOD to enable monitoring of the outstanding dues at the highest level. However, the following deficiencies in the monitoring mechanism were noticed:

- IREDA's operational controls were not fully implemented as there were instances where projects were not physically inspected before first disbursement and subsequently to ascertain the safety and security of the financed assets and to monitor and follow up financial health of borrowers with a view to avoid default and its assets running into NPA. Loose operational control was one of the reasons for high levels of NPA.
- As discussed in paragraph 2.4, the BOD was not monitoring implementation of its Corporate Plan.
- According to the terms of sanction of the loans, IREDA is empowered to nominate directors in the Board of assisted companies and Concurrent Engineers to monitor the status of implementation of the projects. As highlighted in Chapters 3 and 4 of this Report, Audit came across instances where IREDA either did not appoint Nominee Directors in the Board of the borrower companies or the Nominee Directors did not attend the Board meetings or IREDA did not ensure that the borrower companies had taken IREDA's nominee in their Board. Concurrent Engineers were also not appointed in some cases.
- The functional manuals provide guidelines to the personnel concerned to discharge their duties more effectively. Division/section specific manuals including accounting manual were not prepared, which would have strengthened the Internal Control Systems in important areas of activities.

The Management stated (April 2014) that all the projects are physically inspected. However, a methodology shall be developed to ensure better monitoring of the projects and it has proposed to consider creating a Project Monitoring Cell. IREDA was appointing Concurrent Engineers in almost all the projects. However, the issue of appointment of Nominee Directors is under examination in line with other Financial Institutions. IREDA has laid down financing norms and operational guidelines duly approved by the Competent Authority for its day to day operations. In addition, all the operations of IREDA are in the process of computerisation. Some of the activities have already been completed and some activities are in progress for computerisation/upgradation of system. As regards the accounting manual, IREDA has in place a complete integrated accounting system and all the activities of finance and accounts department are transacted through the computerised system with defined delegations to various officials. Accordingly, all the authorities are also clearly defined in the system itself.

The fact remains that there were cases where physical inspection of projects was not done and the projects turned NPA (e.g. M/s Silical Metallurgic Limited and M/s Sri Vasavi Group) or had switched over to use of alternate fuels (M/s Ind Barath Energies (Thoothukkudi) Limited and M/s GK Bio Energy Limited). Audit noticed cases where Concurrent Engineers (e.g. M/s Bothe Wind Farms Development Limited and M/s Panchor Hydro Power Limited) or Nominee Directors (e.g. M/s KU Hydro Power Limited and M/s Bothe Wind Farms Development Limited) were not appointed. Non-invoking of these control mechanisms was

fraught with increased risk of default. The financing norms and operational guidelines of IREDA are generic guidelines and do not detail the Division-wise duties and responsibilities. PIDMOS is still to be made fully operational.

6.4 Internal Audit

Internal Audit is one of the constituents of the internal control mechanism. It is an independent and objective assurance designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

IREDA had outsourced the Internal Audit activity to a Chartered Accountant firm. At BOD level there is an Audit Committee which meets quarterly to discuss the Internal Audit reports.

The scope of Internal Audit as communicated to the Chartered Accountant firm included audit of operations, policies, plans and procedures, as well as economy and efficiency audit. Audit however observed during examination of the Internal Audit reports for the quarters ending 30 June 2011 and 31 December 2012 that the Internal Auditors had not commented upon these systemic aspects in their reports. It was further observed that IREDA had not framed an Internal Audit manual.

The Management stated (April 2014) that the Internal Audit function has been outsourced to a Chartered Accountant firm and the firm has been provided with the scope of work and Terms of Reference and therefore a separate manual is not required. The said firm chalks out its audit programme as per Terms of Reference and scope of work. A detailed scope of work is assigned to the Chartered Accountant firm which covers all the activities enlisted in the corporate governance guidelines issued by DPE.

The fact remains that the Chartered Accountant firm was not conducting a thorough audit of IREDA which could have brought many a weaknesses in the internal controls to the notice of the Management.

6.5 Manpower management - Shortage of personnel

The organisational set-up of IREDA comprises of one corporate and one technical office in New Delhi, two branch offices at Chennai and Hyderabad and two camp offices at Ahmedabad and Kolkata. Adequacy of human resources is a key factor in ensuring that the Company is properly equipped to discharge its functions.

The sanctioned strength and persons in position in IREDA during 2008-09 to 2012-13 was as shown in the following Table 6.1:

Table 6.1: Sanctioned strength (SS) and persons in position (PIP) during 2008-09 to 2012-13

As on 31st	March 2009			March 2010			March 2011			March 2012			March 2013		
	SS	PIP	(Short)/Excess	SS	PIP	(Short)/Excess	SS	PIP	(Short)/Excess	SS	PIP	(Short)/Excess	SS	PIP	(Short)/Excess
Board level officials	3	3	0	3	3	0	3	3	0	3	3	0	4	4	0
Executives	132	75	(57)	128	80	(48)	127	89	(38)	126	88	(38)	116	84	(32)
Non-unionised Supervisors	-	-	-	13	13	0	13	13	0	13	13	0	11	11	0
Non-Executives	47	35	(12)	38	24	(14)	39	26	(13)	40	26	(14)	51	30*	(21)
Total	182	113	(69)	182	120	(62)	182	131	(51)	182	130	(52)	182	129	(53)

*including 6 Management/Engineering trainees

Source: Corporate Office, IREDA

It would be seen from the Table 6.1 that:

- During the five year period from 2008-09 to 2012-13, against the total sanctioned strength of 182 employees, there was a shortage of persons-in-position in each year, both in the categories of executives and non-executives. The shortfall ranged between 51 and 69 persons.
- The sanctioned strength of executives decreased from 132 in 2008-09 to 116 in 2012-13 while that of non-executives increased from 47 to 51. The overall sanctioned strength however remained constant during the period from 2008-09 to 2012-13.

During the same period the volume of work in terms of cumulative projects sanctioned rose from 1892 to 2064 as indicated in Table 6.2 below.

Table 6.2: Statement showing cumulative number of projects sanctioned during the last 5 years

As on March	No. of projects sanctioned during the year	Cumulative no. of projects sanctioned
2009	47	1892
2010	29	1921
2011	34	1955
2012	64	2019
2013	45	2064

Source: Annual Reports of IREDA

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The shortage of manpower could have adversely affect IREDA's capacity to ensure timely processing of loan applications and effective monitoring of projects for ensuring timely recovery of loans.

The Management stated (April 2014) that the audit observation is noted and necessary action is being taken. In order to keep pace with the changed market requirements and expectations, a study is being undertaken by Administrative Staff College of India (ASCI) to suggest an organisation restructuring and required manpower for different disciplines and levels.

Recommendation No. 8

Weaknesses in the internal control mechanism may be redressed.

In response, IREDA partially accepted the recommendation stating that PIDMOS will be further strengthened. External credit rating of projects by independent rating agencies is now being done and Lender's Engineers/Concurrent Auditors are being appointed.