



**OFFICE OF THE
ACCOUNTANT GENERAL (AUDIT) II,
MAHARASHTRA, NAGPUR.**

2017-18

**MANUAL OF GENERAL & SOCIAL SECTOR
(COVERING 19 DISTRICTS IN VIDARBHA AND
MARATHWADA OF MAHARASHTRA)**



PREFACE

This Manual is intended to be a guide for the officers and staff of the General and Social Sector (G&SS) of the Office of the Accountant General (audit) II Maharashtra, Nagpur which covers 19 districts and 19 Departments of Government of Maharashtra.

All decisions of Budget provision/fund Allotment/Procurements/purchases are done by controlling offices which comes under the Jurisdiction of Office of Principal Accountant General Mumbai office. Accountant General (Audit) II, Nagpur under G&SS will focus on Implementation/ Disbursement/ Distribution/ Eligibility of Beneficiaries / Judicious Utilisation etc.

This manual has been prepared by referring Indian Auditing Standards published by IA&AD (Third Edition, 2017), Regulations on Audit and Accounts 2007, Performance Auditing Guidelines, Compliance Auditing Guidelines 2017, CAG's Manual of Standing Order (Audit), OAD manual , Audit Quality Management Framework, Internal Control Evaluation Manual ,Standing orders on role of audit in relation to Fraud and Corruption and various Instructions/ Circulars/ Guidelines issued by HQRS from time to time. This manual also includes best International Audit practices consistent with IA&AD mandate. The instructions contained in this Manual are supplementary to those contained in Comptroller and Auditor General's Manual of Standing Orders (Audit) Edition 2002 as well as the instructions contained in the Manual of the Outside Audit Department prepared by the Principal Accountant General (Audit) I, Maharashtra, Mumbai. This Manual has been compiled for use in I.A. & A.D and confined to O/o. Accountant General (Audit) II, MAH. Nagpur only and should not be quoted as authority in any correspondence with other offices.

OAD (HQ) section will be responsible for keeping the Manual up to date and ensure that all orders affecting changes are incorporated in the Manual with due care and promptitude.

Suggestions for improvement of this Manual are welcome and should be brought to the notice of the OAD (HQ) section.

Nagpur:
Dated:

Accountant General

TABLE OF CONTENTS		
Chapter-I General Constitution and Functions		Page no.
1.1	Constitution and Sanctioned strength	7
1.2	Functions	7
1.3	Preparation of tour programme	8
1.4	Undertaking of New Audit	10
1.5	Special Audit	11
1.6	Consent Audit	11
1.7	Definitions	11
1.8	General Provisions relating to Audit	11
Chapter-II Duties and Powers		
2.1	Duties and Powers of the Senior Deputy Accountant General/Deputy Accountant General (G & SS).	12
2.2	Inspection	12
2.3	Duties of Senior Audit Officer/Audit Officer (Headquarters)	13
2.4	Duties of Inspecting Officer	14
2.5	Duties of Headquarter Section/Audit Units and other sections	16
2.6	Distribution of work at Headquarters	17
2.7	Draft Para Section	18
2.8	Duties of Assistant Audit Officer-(Headquarters)	18
Chapter III Rules of Procedure for the Local Inspection Staff		
3.1	General Duties of the Inspection staff	21
3.2	Strength/Composition of Local Audit Parties	21
3.3	Quantum of Gazetted Supervision	22
3.4	Time Allotment	23
3.5	Extension in Time allotment	23
3.6	Programme	24
3.7	Weekly Diaries	24
3.8	Period cover by local audit party	24
3.9	Intimations of dates of audit and Intimation	25
3.10	Working hours and Pattern of holidays	25
3.11	Attendance	25
3.12	Calling of list of payment for local audit	26
3.13	Distribution of work on Inspections	26
3.14	Conduct of Local Audit	26
3.15	Postponement and suspension of Local Audit	27
3.16	Attitude of Auditors	28
3.17	General Audit Instructions	29
3.18	Check of Cash	31
3.19	Raising and Pursuance of objections	31
3.20	Settlement of old Objections	32
3.21	Matter dealt with by auditors to be kept confidential	34
Chapter-IV Inspection Report		
4.1	Collection of information, copies of documents in support of objections etc.	36

4.2	Compilation of results of Audit/ Language and tone of Inspection Report	37
4.3	Discussion of Inspection Report	41
4.4	Submission of Inspection Report	42
4.5	Documents to be appended with the Inspection Reports	42
4.6	Procedure for dealing with draft Inspection Reports in the Head Office	42
4.7	Preliminary checks	43
4.8	Vetting of Inspection Report	43
4.9	Issue of Inspection Reports	43
4.10	Time schedule for issue of Inspection Reports	44
4.11	Records of objections in the Objection Book	45
4.12	Progress Register of Settlement of Inspection Reports	45
4.13	Advance Audit Comments	46
4.14	Annotated copies	46
Chapter – V Compliance Audit		
5.1	Introduction	48
5.2	General principal of compliance audit	48
5.3	Compliance audit plan	49
5.4	Planning Compliance audit	49
5.5	Conducting Compliance Audit	50
5.6	Reporting Compliance audit	51
Chapter-VI General Principles and Processes of Local Audit		
6.1	General Instructions	52
6.2	General Examination of Accounts	53
6.3	Detailed Test Audit	54
6.4	Audit of Receipt Books	54
6.5	Audit of Cash Book	55
6.6	Audit of Permanent Advances	57
6.7	Register of valuables	58
6.8	Accounting of non-Government money	58
6.9	Scrutiny of Treasury challans	59
6.10	Bill Register	59
6.11	Rush of expenditure	59
6.12	Register of Forms	60
6.13	Stationery Registers	60
6.14	Register of Telephones	60
6.15	Audit of Securities	61
6.16	Audit of contingent expenditure	62
6.17	Audit of Purchases	65
6.18	Check of tenders and comparative statements	67
6.19	Check of Contracts and Agreements	68
6.20	Verification of Remittance to Treasury	70
6.21	Verification of withdrawal from the Treasury	71
6.22	Check of Log-Books of Government Vehicles	71

6.23	Audit of Establishment Pay Bills	73
6.24	Audit of T.A. Bills	78
6.25	Checks exercised in local Audit of Establishment charges	79
6.26	Checks of stamp accounts and franking machine account	79
6.27	Audit of General Provident Fund Account	80
6.28	Audit of Expenditure (including checks of AC/DC bills)	84
7 CHAPTER-VII Defalcations and Frauds		91
CHAPTER-VIII AUDIT OF PERSONAL LEDGER ACCOUNTS		
8.1	Introduction	95
8.2	General process of audit	96
8.3	Instructions regarding audit of personal ledger accounts	97
8.4	Inspection Report	98
CHAPTER-IX AUDIT OF GRANT-IN-AID		
9.1	General	99
9.2	Audit under section 14 of CAG's (DPC) Act, 1971	100
9.3	Scope of Audit	100
9.4	Guidelines for conducting Audit under Section 14	102
9.5	Audit under Section 15 of CAG's (DPC) Act, 1971	103
9.6	Process of Audit	106
9.7	Reporting of results of audit under Section 14 and 15	109
CHAPTER-X PERFORMANCE AUDIT		
10.1	Introduction	111
10.2	Definition	112
10.3	Mandate and General Principles of Performance Audit	112
10.4	Strategic Audit Planning and selection of subject	113
10.5	How to plan individual Performance Audit	115
10.6	Various elements of implementing the Performance Audit	115
10.7	Aspects relating to Evidence and Documentation	116
10.8	Reporting process of Draft Performance Audit Report	117
10.9	Follow-up procedure	118
CHAPTER – XI INTERNAL CONTROL		
11.1	Definition	120
11.2	INTOSAI Guidelines for Internal Control	121
11.3	Audit of Internal Control: Indian Context	122
11.4	Components of Internal Control	123
11.5	External Auditor assessing of Internal Control Procedure	124
11.6	Audit Methodology	124
11.7	Reporting	125

Check list of various Departments		
	Medical Education and Drug Department/ Public Health Department	128
	Home Department	129
	Women and Child Development Department	130
	Tribal Development Department	130
	School Education and Sports Department	131
	Social Justice and Special Assistance Department	132
APPENDICES		
I	List of registers and forms etc., used in the Inspection Civil	134
II	Destruction of Records	135
III	Calendar of Returns	136
IV	List of Departments and Offices along with Districts under Jurisdiction of G&SS	139
V	Major Departments and Various schemes Implemented in the Department	142
VI	Important paras of G&SS appeared in C&AG's Audit Report	145

CHAPTER I – GENERAL

CONSTITUTION AND FUNCTION

1.1 Constitution and Sanctioned strength

General & Social Sector (G & SS) wing has been constituted for conducting local audit of the accounts of the offices of the State Government falling under the G & SS Departments. The audit conducted centrally in this office is supplemented by periodical test audit of initial accounts, documents, vouchers etc., with a view to ensure the propriety and the accuracy of the original data on which the accounts of an office are based .

(a) Outside Audit Department (OAD) (Headquarter) section is the controlling section and exercises control over the administration and working of field audit parties.

(b) The field audit work has been distributed among the following types of field audit parties:

- (i) Review parties for carrying out efficiency cum performance audit.
- (ii) Audit under Sections 13, 14 & 15 conducted locally by scrutiny of records of the sanctioning authorities and autonomous bodies.

The local audit party normally consists of one Assistant Audit Officer (AAO) and two auditors. However, parties which conduct important audits consist of two AAOs and one auditor.

The field parties are supervised by Sr. Audit Officer/Audit Officer. The “A” category units are fully supervised by Sr.AO/AO.

1.2 Functions

G & SS wing is responsible for conducting local audits of the accounts of the State Government offices falling under departments of G & SS for which the CAG is statutory auditor , responsible under the CAG’s (DPC) Act, 1971.

The functions include Audit Planning, Execution, Reporting and Follow up.

Audit Planning:-

- 1) Electronic data base of auditee profile,
- 2) Materiality and Risk Assessment,
- 3) Audit Objective , scope and Methodology
- 4) Focus on criteria,
- 5) Identification of key risk areas and statistical sampling techniques,

- 6) Scheduling of Audit,
- 7) Training and capacity building,
- 8) Staffing for audit,
- 9) Assignment of personnel,
- 10) Parameters for distribution of work,
- 11) Standard formats and checklist,
- 12) Provision for supervision and review of audit

Audit Execution: - The Audit execution broadly includes following:-

- 1) Entry Conference
- 2) Determination of the audit approach
- 3) Developing and executing audit tests through evidence gathering, evaluating evidence, developing audit opinions;
- 4) Developing findings and ensuring that replies/ responses from the management are received;
- 5) Developing recommendations; and
- 6) Exit conference

Reporting: - The audit report should be complete, accurate, objective, convincing, clear and concise. The audit product includes all reports/appraisals/ comments/ opinions/findings that emerge from the audit process and its follow up. The response of the auditee should also be adequately reflected, and any divergence of opinion should be dealt with clearly.

Follow up: - Follow up of the audit output improves the quality and effectiveness of audit by assessing the response of auditee to the work performed by audit in terms of results and impact. There should be an assessment of action taken by the auditee in response to audit findings.

(Authority: - CAG's operationalisation of AQMF dated 04/06/2009)

1.3 Preparation of Tour Programme

(a) Maintenance of Master Programme Register

District wise Master Programme Register should be maintained at the OAD (Headquarters) section showing:

- (i) Name of the office to be inspected with full address and telephone number,
- (ii) Periodicity;

- (iii) Time allotment and
- (iv) The month and year of last audit.

The register should contain suitable columns to record the dates of audit for five years after which it should be prepared afresh, after deleting the offices not in existence and adding newly formed. Any additions and alterations in the existing entries in the register should be made at once quoting full reference to the relevant orders under the dated initials of the Branch officer. The register should be submitted to the Branch Officer as well as to the Group Officer as mentioned in calendar of returns.

(b) With the help of the Master Programme Register, quarterly tour programme of the local audit parties should be prepared. No hard and fast rules can be laid down in this behalf, but the following requirements should be ensured:-

(I) The tour programme of the local audit parties should be prepared indicating

- (1) Designation of the D.D.O. and name of office, telephone No., if any;
- (2) periodicity;
- (3) period from which an audit is due;
- (4) time allotment; and
- (5) Holidays.

(II) Name of the office should normally be included in the programme of audit in the month in which the inspection falls due.

(III) As far as possible all inspections to be carried out in a particular station or area should be conducted at a single visit in each quarter of the year to ensure maximum economy in travelling expenses. The programme should be so framed that normally the field parties follow the shortest and direct routes and there is no overlapping or covering of the same routes again by the same party or any other party.

(IV) To ensure maximum output, transit from Headquarters office to the field parties should be allowed on working days and transit from one station to another during tour can be given on Sundays and holidays. Full day transit should be allowed for tour station located at a distance of more than 200 Kms.

(a) The local audit programme may be organized in such a way as to ensure that audit of bodies and authorities selected under Section 13,14 &15 of CAG's DPC Act, 1971 and other institutions, is completed according to the

Audit Plan drawn out annually. The reviews of schemes selected should also be completed with the existing staff. The balance of staff may then be deployed on the normal work and it may be ensured that this is suitably phased so as to complete it with the available staff. For this purpose, it may be necessary to review the existing frequency and duration of the inspection of offices coming under the usual local audit programme of the wing with regard to the importance of the audit of particular office/institution. For example, if expenditures of the institutions mainly relate to salary and allowances and which are not likely to throw up important points for inclusion in the Audit Report, need be given only comparatively low priority in such programme. The intention is that, all institutions should be covered in the local audit programme over a period of time. It is not necessary to adhere to fixed schedules of annual , biennial or triennial local audit in respect of auditee units , financial transactions of which are more or less of a routine nature and which do not generally deal with development programme. All institutions should, however, be covered in local audits over a period of time without any fixity of schedules.

(b) The programme of audit of accounts in respect of which financial statements etc. are incorporated in the Appropriation Accounts and Audit Report, should be arranged in such a manner that all the audits are concluded well in advance of the date by which material has to be supplied to Appropriation Section.

1.4 Undertaking of new Audit

As per existing procedure, the Treasury Miscellaneous (TM) section of AG (Accounts & Entitlement), Nagpur forwards the intimation regarding assignment of Drawing and Disbursement Officer (DDO) power to State Government unit. Name of the same is included in list of units. After 3 years this unit qualifies for local audit and included in audit plan. If Government or any other authority requested to the Accountant General (AG) to undertake audit for which no orders were issued by the CAG, the AG should refer the matter to the CAG.

(Para 1.1.8 CAG's M.S.O. (Audit) Edition – 2002)

1.5 Special Audit

The special audit of an office or institution may be undertaken at the request of the State Government when a report of fraud, misappropriation or any other serious financial irregularity is received or when such irregularities are suspected.

1.6 Consent Audit:-

With the promulgation of the CAG's (DPC) Act, 1971, the practice of undertaking audit on "consent" basis ceases and audit undertaken by the CAG has to be under one or other section of this Act or any other enactment of Parliament.

1.7 Definitions

- (a) "Comptroller and Auditor General" means the Comptroller and Auditor General of India appointed under Article 148 of the Constitution;
- (b) "State" means a State specified in the first schedule to the Constitution;
- (c) "Union" includes a Union Territory, whether having a Legislative Assembly or not.

1.8 General provision relating to audit

It shall be the duty of the CAG-

- (a) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
- (b) to audit all transactions of the Union and of the State relating to Contingency Funds and Public Accounts;
- (c) to audit all trading, manufacturing, profit & loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State and in each case to report on the expenditure, transactions or accounts so audited by him.

CHAPTER – II

2.1 DUTIES AND POWERS

Duties and powers of the Senior Deputy AG/Deputy AG (G & SS)

Each Inspection of G & SS Wing is under the direct charge of the Group Officer who is responsible for general administration of the wing ensuring its smooth and efficient working. His main duties and powers are given below:-

- (i) General Administration of the Wing;
- (ii) Personal Supervision of important audits by inspection during the course of audit ;
- (iii) Preparation of audit Plan/Programmes/Tour notes of Group Officer;
- (iv) Active involvement at every stage in performance audit work;
- (v) Marking of such paragraphs of the Inspection Reports at the time of approval, as are of sufficient importance for its inclusion in Audit Report;
- (vi) Scrutiny and approval of the weekly diaries of local audit parties;
- (vii) Approval of all extensions in the time allotments for local audit;
- (viii) Preparation of tour programmes including any deviation of all Gazetted and Non Gazetted staff of the local audit for obtaining approval of the AG;
- (ix) Postings and transfers of all Gazetted and non-Gazetted staff to Headquarters or to various local audit parties within the Inspection of G & SS Wing after approval of the AG;
- (x) Waiving of objections having monetary value up to the limits prescribed and subject to the fulfilment of conditions laid down in Para 7.1.16 of the CAG's Manual of Standing Orders (Audit) 2nd Edition 2002;
- (xi) Granting of regular leaves to AAOs and Sr. AOs for periods up to 60 days. He may sanction eight days casual leave to the staff working under him.

2.2 Inspections

- (a) The Group Officer is to supervise the field audit parties minimum of seven days in a month. He should submit the tour note in the prescribed format along with his tour programme for the following months to AG for approval by 25th of the month, preceding the month to which it relates. He should not leave headquarters without the permission of the AG. The Group Officer shall prepare his tour programmes for local and outstation units, giving coverage to maximum number of units, rotation of stations, parties and units so as to avoid deviation at a later stage. However, any deviation from approved programme

in respect of party unit, station (local or outstation) dates of supervision and transit shall have the prior approval of the AG.

(b) The Group Officer is liable at any time to be recalled from tour by the AG for special purpose.

(c) Supervision of other audits i.e. annual, biennial, etc. should be as under:-

- Category A units having expenditure more than Rs 25 crore will be audited annually and 100% supervised by Sr. AO/AO
- Category B units having expenditure between Rs 10 crore to Rs 25 crore will be audited bi-annually and 50% supervised by Sr. AO/AO
- Category C units having expenditure less than Rs 10 crore will be audited once in three/four years for which partial supervision is recommended subject to availability of SRAO/AO.

In addition to that full gazetted supervision (SRAO/AO) should be provided for the following types of audit:

- (i) Performance Audit
- (ii) Thematic Audit
- (iii) Long Para
- (iv) Audit under section 14 & 15 of the CAG's (DPC) Act, 1971.
- (v) System audit wherever special audit of specific systems are taken up. (IT Audit)
- (vi) Audit of district and higher level offices which deal with development activities under plan programme.
- (vii) Special Audits (Frauds, embezzlements).
- (viii) Other annual, biennial, etc. audits should be supervised to the extent of 50% subject to a minimum period of three days towards the closing stages of each local audit.

2.3 Duties of Sr. AO/ AO, OAD (Headquarter)

The Sr. AO/AO in charge of OAD (Headquarter) Section shall be responsible for supervision and efficient working in the sections under his charge. He will assist the Group Officer (G & SS) in performance of his duties and in the discharge of the duties enumerated in clauses (iii) to (xi) in Para 2.1 above and will undertake such other items of work as may be entrusted to him by the Group Officer. The Sr. AO / AO will have power to grant casual leave up to

five days at a time to the AAO and up to eight days at a time to the staff working under AAO when the period exceeds to the power of sanction of the AAO. In addition, he may sanction regular leave with pay and allowances to the Sr. Auditor/Auditor working under him up to a maximum period of 30 days at a time.

2.4 Duties of Inspecting Officer

The Inspecting Officers (IOs) are responsible for supervision and efficient working of local audit parties entrusted to their charge. The IOs will have the following duties:

(i) The duties and responsibilities assigned to the IO according to the provisions in Section VI (6.1.8) of Manual of Standing Orders (Audit) are sufficiently exhaustive. Besides performing the coordinating functions to achieve over-all efficiency in performance and seeing that necessary process of audit of the various documents have been carried out by the staff under him. The IO will do original work also and personally examine all important points raised by the staff with reference to original documents. He should personally review major scheme files, major procurements, financial powers of head of auditee unit, list of beneficiaries, etc and also see whether the state of accounts in the office inspected is satisfactory. He should himself draft the Inspection Report (IR) and discuss it with the head of the office inspected, wherever he is present at the close of the inspection.

(Annexure to Para 6.1.7 of MSO (Audit) – 2nd Edition – 2002)

(ii) In case of important audits, he should ensure that he gets necessary briefing where required from the Group Officer (G & SS) well in time with regard to any special point to be examined during such local audit. Likewise, in the case of special audits, he has to ensure that necessary guidelines on which special audit is to be conducted are obtained from the Headquarters and the period for which the records are to be examined in detail is also to be ascertained.

(iii) The IO shall make it a point to call on the Head of Office being inspected in the beginning of audit and ascertain from him, if he has any suggestions, for looking into any point of importance in greater details. He should examine such suggestions and also other matters which come to his notice for deciding upon the lines on which the local audit is to be started.

(iv) The IO has to acquaint himself with the system of finance of the office /institutions, the accounts of which he is inspecting, what makes up its receipts and how its money is expended. He should then make up his mind as to what system of accounts is necessary for these receipts and expenditure, what registers are necessary for internal check purpose and how far the existing system conforms to this standard. This is the elementary and primary responsibility of the IO to be discharged at whatever stage he comes in on the inspection.

(v) The IO should guide their staff, do a certain amount of original work in respect of important transactions and should personally examine, with reference to the initial documents, all important points raised by their staff.

(vi) The settlement of outstanding paragraph of the earlier IRs is one of the important duties of an IO.

(vii) He should try to get all the facts and explanations on the spot by discussing the points raised during inspection with the Head of the Office. Wherever the IO feels that the points raised by him are so important that they may ultimately find a place in the Audit Report of the CAG, he should take particular care to examine all the issues involved, collect all the relevant information and also take attested copies of those documents which are likely to be useful in pursuing the matter with higher authorities, while editing the draft paragraphs for the Audit Report, Headquarters should not find themselves at a loss because of missing links in the facts and arguments set forth necessitating a fresh reference through the next audit party resulting in avoidable loss of time.

(viii) It should be recognised as one of the important duties of IO to report immediately to the Group Officer (G & SS), anything really serious or important which comes to light in the course of his inspection without waiting to be its inclusion in the IR.

(ix) The IO shall personally attend to the following items of work during local audit:-

(a) Disposal of previous IRs including review of old objections.

(b) Conduct a general review of the cash book and scrutiny of transactions involving heavy expenditure and receipts of peculiar nature.

(c) Examination of system of stores, purchases and general review of purchases made.

(x) Approve the distribution of duties amongst the members of audit party.

(xi) Reporting of important and interesting cases to the Sr. Dy. AG/ Dy. AGs every month.

2.5 Duties of Headquarters Section.

G & SS (Headquarters) Section is responsible for the following items of works:-

(i) Keeping up to date the list of offices to be locally audited.

(ii) To draw out an audit plan of units to be audited in the next financial year for approval by the AG.

(iii) Preparation of quarterly tour programmes of audit parties and IOs under the orders of the Group Officer.

(iv) Sending intimations of dates of local audit to the concerned offices in time.

(v) Ensuring that the local audit and inspection are carried out in accordance with the approved programmes.

(vi) To get the month/months account selected for detailed audit and intimating the same to the local audit parties. (Practically this is being done at local level)

(vii) To ensure that the IR of each office, of which the audit is completed, is received at Headquarters in time and is not detained by the local audit party beyond the prescribed period.

(viii) To ensure that all the IRs received are properly and promptly edited and issued to the concerned offices after approval by the Group Officer within one month .

(ix) Scrutinize the compliance of IRs received from the Departmental Heads, issue further remarks, if any, or take any further action on the same until all points raised in the IRs are finally settled.

(x) To review the outstanding paras monthly and maintain its up-to-date position.

(xi) Maintenance of all prescribed Registers and issue of reminders when due.

- (xii) Supplying copies of all important orders, interpretations of rules and books, codes and manuals to the local audit parties which are useful for local audit purposes.
- (xiii) Correspondence with the State Government regarding local audit.
- (xiv) Furnishing of material required by the Report Section for its inclusion in the Audit Reports.
- (xv) Examination of the weekly diaries received from the local audit parties.
- (xvi) Checking of movements of the party personnel shown in their T.A. bills with the sanctioned tour programmes, weekly diaries and casual leave registers, etc., and submission of the T.A. bills to Office Establishment-I Section within 60 days from the completion of date of journey, etc.
- (xviii) Staff proposals of the G & SS Wing for each financial year are correctly worked out and submitted to the Administration Section well in time.
- (xix) Seeing that all the local audit work is done punctually and regularly.
- (xx) Preparation of periodical arrears reports and other returns.
- (xxi) Maintenance of important orders files for guidance of the Headquarters Sections and local audit parties, and keeping the Manual up to date.
- (xxii) Casual leave accounts of the staff of the G & SS (HQ) and local audit parties will be kept in Headquarter Sections.
- (xxiii) All other miscellaneous and policy matters relating to the Inspection in connection with local audit/inspection and disposal of IRs etc. should be dealt with promptly.
- (xxiv) Maintenance of all the prescribed registers shown in Appendix I. These registers should be examined by the AAO and submitted to the Sr. AO/ AO (Headquarters) and Group Officer (G & SS) on the due dates given in the Calendar of Returns maintained as per Appendix III of this Manual.
- (xxv) All other miscellaneous and ancillary items of work as may be entrusted.

2.6 Distribution of Work at Headquarters

Work of G & SS wing is divided into two sections. Each sections are under the charge of AAO. The work between them is distributed as under:-

OAD (HQ) I

- (i) Preparation of Audit Plan, tour programmes and dealing with matters relating to local audit;

- (ii) Preparation of staff requirements;
- (iii) Postings and transfers;
- (iv) Work regarding vetting to dispatching of IRs to the audited unit of Departments of Social Justice & Special Assistance, Revenue & Forests; Women & Child Development Department and Tribal Development Department.

OAD (HQ) II

Work regarding vetting to dispatching of IRs to the audited unit of Finance, General Administration, Home, Law & Judiciary, Planning, Employment & Self Employment, Food, Civil Supplies & Consumer Protection, Higher & Technical Education and Employment, Medical Education & Drugs, Public Health, School Education & Sports, Urban Development, Water Supply & Sanitation Departments and Grant-in-Aid i.e. all work related to audit under Section 14 of CAG's (DPC) Act, 1971. The AAO of OAD II section is also in charge of CAG (ACT) cell which in turn maintained accounts of Grant in aid institutions.

2.7 Duties of AAO/ OAD (Headquarters)

The AAOs of OAD (HQ) I & II hold the supervisory charge of the sections and are required:

- (i) to exercise a methodical, complete and clear supervision over the working of their sections to see that orders are understood and correctly followed, to maintain discipline and tidiness in the sections, to see that the work of the section is evenly distributed, to see that standing orders regarding leave, attendance, and general conduct are strictly observed and to bring any irregular habit, disorderly conduct, neglect of duties or insubordination on the part of their staff as detected by them to the notice of the Sr. AO/AO of OAD(HQ).
- (ii) To maintain a Calendar of Returns showing the due and actual dates of submission of reports and returns to the various authorities. This should be submitted to Branch Officer weekly. Blank note sheets should be appended to and bound with the Calendar of Returns for the purpose of submission of the weekly reports in the prescribed format. The Branch Officer should record the result of his scrutiny and his further instructions, if any. The timely submission of the calendar of Returns should be watched through the Calendar itself.

- (iii) To maintain and keep in safe custody the Attendance Register, Casual Leave Register, Register of Financial Irregularities and to submit all reports (including Diary Reports), Registers, Statements (mentioned in Appendix I) etc. due from the section.
- (iv) To see that:-
- (a) The old records requisitioned from the records branch are not unnecessarily retained in the section; and
- (b) All correspondence files and other records are duly arranged and delivered to the Branch when due.
- (v) No arrears of any kind accumulate and an arrears report in the prescribed form to be submitted effecting the true state of work in the section.
- (vi) To overhaul thoroughly at least once in a month all papers on his assistants tables, racks stools, pigeon holes, drawers, almirahs, etc. to see that nothing has escaped or escapes disposal and that all disposed of papers, vouchers, etc. are regularly and properly filed.
- (vii) All Codes and Reference books supplied to the Section are kept up to date and are readily available.
- (viii) The Sectional Order Book and other files containing office orders, circulars, government letters, etc., are properly maintained and kept up to date.
- (ix) The particulars of all documents etc., sent out are noted in the registers prescribed for the purpose.
- (x) Ensure the correctness of all information, facts, figures, communicated to government departmental authorities, other offices.
- (xi) All cases of financial irregularities, losses, has been pursued vigorously etc.
- (xii) to maintain a note book for recording the various points which he has to watch but which are not required to be noted in any one of the prescribed registers and to put it up to the Branch Officer on the 5th of each month. This record should be handed over to the successor whenever there is a change in incumbency.
- (xiii) to signed ordinary, routine and printed letters for the Sr. AO/ AO whether he is on tour or at Headquarters.

(xiv) Gone through carefully the letters received daily and to mark specially those letters which require prompt action and to see that no delay occurs in their distribution and disposal.

(xv) The disposal of correspondence and bills received through Sectional Diaries, the Section's despatch number is given in case reply has been issued and the number and date of transit register is quoted when a letter is finally transferred to another section for disposal. Cent percent the entries of disposal in case of letters from the Government of India, State Government and the CAG of India to be verified before submission of weekly diaries.

(xvi) To dispose of all unofficial references and important letters from the Government of India, State Government and CAG and to see that where necessary a copy is invariably taken of all unofficial references for inclusion in the office files.

(xvii) Letters and other papers which are of interest to more than one section of the office as also the ruling and orders of general applications which are received directly in the section are circulated/communicated without delay to other AAOs for information and necessary action.

(xviii) To pass file orders on all letters, audit memos, etc.-except letters from the Government of India, State Government and CAG of India, which should be filed only under orders of Sr. AO/AO/ Group Officer in charge.

(xix) To review the Sectional Transit Register at the end of each month to see that all letters entered therein for transmission to other Sections are duly received by them under dated initials without undue delay; that effective steps are taken to dispose of the disputed letters and undelivered letters are shown as outstanding in the diary report.

(xx) To prepare Agenda for every Quarterly meeting by incorporating all important points. Further ,the minutes of Quarterly meeting should be circulated to all field staff without delay.

2.7 Draft Para Section

Work regarding processing of Draft Paras and its onward submission to Report II Section for its inclusion in Audit Report is done by Draft Para Section. The Draft Para section has to comply the annotations received from Headquarters office.

CHAPTER III

RULES AND PROCEDURES FOR THE LOCAL INSPECTION STAFF

3.1 General Duties of the Inspection Staff

Definition of Inspection:- To enable the C&AG to assure himself of the accuracy of the original data forming the basis of Government Accounts , he has the authority under sub-section (1) of section 18 of the Act to inspect any office of Accounts including Treasury or other office which under control of state Government.

(Authority :- 6.1.1 of MSO -2002)

The inspection staffs is responsible for carrying out the actual audits/inspections, drafting of the IRs and despatching of such reports to the OAD (HQ) section along with all relevant documents. Work regarding vetting and dispatching of IRs to the audited unit is carried out by OAD (HQ) Section. The inspection staff should, however, draw attention of the OAD (HQ) section by separate notes to the defects in this Manual and should scrutinise at each inspection the relevant portion of the Manual to see whether it requires amendment in any respect.

IA & AD has adopted a code of ethics which should be observed by auditors at all times. The auditor promotes trust, confidence and credibility by adopting and applying the ethical requirements of the concepts embodied in key principles of the code- Integrity, Independence, Objectivity and impartiality, Confidentiality and Competence. The conduct of auditors should be beyond reproach at all times and in all circumstances.

3.2 Strength / Composition of Local Audit Parties

Ordinarily one AAO, one or two Senior Auditor /Auditors are attached to each local audit party. The Senior Auditor /Auditors work under the supervision of the AAO. Where there are two AAOs in a local audit party, the Senior AAO will be the in charge of the party.

Now a days, A- category and B- category units are covered in local audits. Therefore maximum supervision of SRAO/AO is provided to local audit parties. The composition of local audit party should be determined keeping in view the nature and complexity of the work of the organisation to be

inspected. The composition of the party can be varied, particularly in respect of major and important local audits. For really important local audits, even three or four AAOs can be deputed with one or two Senior Auditors and full time supervision provided with a view to improve the quality of local audit and cutting down its duration. It is also imperative to ensure that before commencement of the local audit, the party undertakes a detailed and in-depth study at the Headquarters regarding functions, nature and extent of activities and magnitude of its financial transactions of the office or organisation to be inspected. The IO should himself undertake some important and original work and brief the inspection party regarding description of the work required to be done by each member.

Detailed planning of the work, from its very inception will be the personal responsibility of the supervisory officer at the level of the Group Officer, who should ensure effective supervision of inspection work and provide necessary guidance. Their close supervision would be required particularly in the second half of inspection of major department offices and organisations. It is also necessary to ensure that the personnel of local audit party particularly AAOs and Sr. AO/ AOs are not changed in the midst of inspection.

Note 1. The time allotted in tour programmes includes the time for writing of Audit Memos and IRs, but excludes time taken on journeys and Sundays and holidays on which work cannot be done.

Note 2. Local holidays and any other holidays declared by the State Government should be observed. A copy of the orders in support thereof should be submitted to OAD (HQ) along with the relevant weekly diary.

Note 3. If transit from one station to another falls on a holiday, such a day should be utilised for transit and not to be availed as a holiday.

Note 4. The auditors will not be allowed a day or as a part of a day during working hours for looking for accommodation or attending to papers received from the Head Office. Auditors arriving at a station before 12 noon are expected to put in at least half a day's work.

Note 5. The time allotted for local audits also includes time for the disposal of old objections.

Note 6. In case of second and fourth Saturday/ Sunday and two or more consecutive holidays, all the LAPs carrying out audit outside Nagpur and

within a periphery of 200 Kilometres from Nagpur may avail evening transit to Nagpur on the working day before the first day of holidays and may avail morning transit from Nagpur to place of audit on the working day after the last day of holidays.

3.3 Quantum of Gazetted Supervision

(a) As far as possible full gazetted supervision at the level of Sr. AO / AO should be provided for the following items of local audit: -

- (i) Efficiency cum performance audit (now, Performance Audit and Thematic Audit);
- (ii) Audit under Section 14 &15 of the CAG's (DPC) Act, 1971; Grant in Aid institutions and other units getting grants under section 15
- (iii) System audit wherever special audit of specific system are taken up;
- (IV) Audit of district and higher level offices which deal with development activities under Plan Programme; and
- (v) Special audits (frauds, embezzlements etc).

(b) Other annual, biennial audits should be supervised as under:-

- Category A units having expenditure more than Rs 25 crore will be audited annually----100% supervision by Sr. AO/ AO.
- Category B units having expenditure between Rs 10 crore to Rs 25 crore will be audited Biennially--- At least 50% supervision by Sr. AO/AO.
- Category C units having expenditure less than Rs 10 crore will be audited once in three/four years---Supervision as per availability of manpower.

3.4 Time allotment

The time allotment for each auditee unit is fixed on the basis of category of unit. The man days are allotted as under:-

A category – 10 to 12 days

B category - 8 to 10 days

C category – 6 to 8 days

A review of time allotments should be carried out every third year in order to see that the time allowed for the local audit of various types of offices is adequate and not more than adequate.

3.5 Extension in time allotment

(a) The time allotment for the audit of an office/unit should not be exceeded except for very special reason and with the previous sanction of the Group Officer. The local audit parties should take care to send the request for extensions well in advance so that the orders of the Group Officer in this regard are communicated to them before the expiry of time originally allotted. In no case, extension shall be availed of before it is actually sanctioned.

(b) While submitting request for extension in time allotment for any audit, full justification necessitating such extension should invariably be given.

3.6 Programme

No variation is allowed from the prescribed programme without the previous permission of the Group Officer (G & SS).

3.7 Weekly Diaries

(a) *Preparation and Submission of Weekly Diaries* – Each AAO / Supervisor , Sr. Auditor and auditor should prepare weekly tour diary based on work done by him/ them. Weekly tour diaries of the Senior Auditor /Auditors should be countersigned by the AAO who should also record a certificate on page No. 8 of the title sheet that the work done by the Senior Auditor /Auditors was reviewed daily and found satisfactory or otherwise, as the case may be. Weekly diaries for the work done in the week from Monday to Saturday should be forwarded to the Headquarters on Monday of the next week. Weekly tour diary forwarded by the AAO, Senior Auditor and Auditor should be scrutinized by the Sr. AO /AO of OAD(Headquarters) and submitted to the Group Officer.

(b) *Review of the work done by the auditors during Local Audit by the Supervisory Staff*

(i) With a view to ensuring that the items of work attached to the AAO/ Sr. Auditor have been checked adequately during the local audit, it has been decided that the SRAO/AAO (senior most among them in case there are more than one AAO) should conduct a test check of the work done by the AAO/ Senior Auditor/Auditor (as the case may be) including the check of totals expected to be made by the latter.

3.8 Period covered by Local Audit

(a) As far as possible , every local audit or inspection should cover transactions from the date up to which the account was last audited to the

month preceding the month in which inspection takes place. The Cash book should, however, be checked up to the date of audit. The local audits and inspections should be complete and thorough in respect of the transactions covered by them.

(b) In case of accounts in respect of which part audit certificate is required to be issued by our office i.e. (i) Vocational Training Improvement Project; ii) Integrated Child Development Scheme; iii) Maharashtra Rural Water Supply –Sanitation Programme (Jal Swarajya-II); iv) Superintendent of Police (Railways), Nagpur; v) Zilla Sainik Welfare Board, vi) World Bank Schemes, etc., the period of audit would be up to the end of last financial year.

3.9 Intimation of dates of audit and Inspection (Para 4.22 of compliance auditing guidelines)

(i) After the overall strategy and audit plan, intimation should provided to the identified auditable entity.

(ii) Immediately after the approval of Quarterly programme of local audit, a copy thereof should be sent to the concerned audit units so that they may take necessary steps to keep their records ready for being made available to the local audit parties.

(iii) Copies of the approved programmes of local audit parties along with subsequent amendments made therein should be supplied to the respective IOs/ AAO for their guidance.

(iv) Intimation regarding change of dates of audit of any office consequent upon grant of extension/ postponement or otherwise should be sent to the Head of Office concerned immediately.

3.10 Working hours and Pattern of Holidays

(a) The local audit parties will observe the working hours and the pattern of holidays of the office/department visited by them. While every endeavour should be made to observe the above instructions as far as practicable, there would be no objection to minor adjustments being made in working hours or pattern of holidays, in case of such parties to suit administrative convenience.

(b) The Government of Maharashtra offices observes the working hours from 10.00 Hrs to 17.30 Hrs. with half-an-hours break for lunch. Every second and fourth Saturday is closed holiday.

3.11 Attendance

(a) All the members of local audit party must attend the office which they inspect during the regular hours.

(b) Each local audit party should maintain an Attendance Register in which each member of the party shall mark his attendance. The attendance register should be closed in accordance with the instructions laid down in the Manual of Office Procedure. The attendance register should be submitted to the IO at the time of his visits to supervise the work of the party.

3.12 Calling of lists of payments for local audit

A copy of list of payments /expenditure and also schedule of drawals for the selected months must be provided to the field parties for verification during the course of audit by an auditee organization. The audit party should prepare the list of drawals in duplicate from the treasury records for verification of transactions with the records of DDO i.e. cash book and prepare the list of remittances from the cash book of DDO for verification of transactions with the treasury records.

3.13 Distribution of work on Inspections

It is always convenient in the matter of practical results (arithmetical calculations / routine scrutiny) to entrust the more mechanical and routine portion of the work to the Auditors and more important work to the AAO including pursuance of other complicated investigations. Distribution of duties amongst the members of Audit party should be approved by the IO in case of supervised audit.

The broad line of the distribution of work as laid down in annexure appended to Para 6.1.7 of CAG's Manual of Standing Orders (Audit) second Edition.

3.14 Conduct of Local Audit

Before taking up the audit of a Government office or body/authority, the AAO/IO should -

(i) Study the documents in OAD (HQ) relating to the auditee unit/ office and make themselves conversant with its set up, i.e. if a government office, whether it is an attached or subordinate office and if a body or authority, whether it has been set up under an Act of Parliament or a Registered Society, etc., its Governing body and General body, the functions entrusted to it and the

system of finance obtaining in the office, i.e., what makes up its receipt and how its money is expended, what system of account is being followed, what accounts books are prescribed and what are the details of its budget etc. The Act of Parliament, Memorandum and Article of Association, Regulations, Rules etc. relating to the body or authority, the Annual Administrative Reports, the Departmental Manuals, Delegation of Financial Powers relating to the office or any other publications or Evaluation Reports should also be examined in addition to IRs of previous years.

(ii) Study the CAG's Secret Memorandum of Instructions where in some of the important matters to which attention should be given by the local audit party and the IO are indicated.

(Para 6.1.25 of the CAG's Manual of Standing Orders (Audit) Second Edition 2002).

(iii) Ensure that the records, concerned with the audit units, which are required to be obtained from the Headquarters (like old IR file, Audit notes from CAP sections, etc) have been received.

(iv) Call on the Head of the Office, the accounts of which are about to be audited at the very commencement of audit and seek his assistance in settlement of old objections, supply of records and information for the current audit and provision of office accommodation and facilities for the conduct of audit. The officials directly concerned with audit, namely Drawing and Disbursing Officer, Administrative Officer, Accounts Officer, etc. should also be met.

(v) Obtain in writing from the Head of office an exhaustive list of various fields of activities and the records maintained (like Monthly Progress Report preferably of March month which will reflect all activities during the year, Sanctions received during the years, Supplies received during the year , list of beneficiaries ,etc.) so as to ensure that all fields of activities of the office inspected and all financial records maintained in the office are covered during local audit.

(vi) Ensure that distribution of work among the members of local audit party has duly been made. It should also be ensured that full details regarding the nature of work allocated to each member of the party is attached to the IR.

Note: The Audit party in the course of their audits can express independent opinions connected with the interpretation of various Act or Rule .

3.15 Postponement and suspension of Local audit

Requests for postponement of audit are considered only in exceptional circumstances. All cases of postponement should have approval of the Group Officer. In cases whose requests for postponement of audit were not received through the Head of the Office/Department and the departmental office fails to produce the records on the scheduled date of audit, the AAO of the field audit parties should ascertain the reasons for non production of records in writing from the Head of the office. The position should be brought to the notice of the Headquarters before taking up next audit in the programme. Where due to non production/non availability of prescribed account records of vital importance, an audit party is unable to proceed with the audit of an office, a detailed note indicating reasons for non production/non-availability of records along with the remarks of the Head of the office inspected may be sent by the AAO/IO of the audit party to Headquarters seeking suspension of audit. Such note, if any, received from any party shall be accorded priority and orders thereon shall be obtained from the Group Officer. No audit should, however, be suspended without his prior permission. Where any audit is ordered to be suspended the reasons for suspension of audit shall immediately be intimated to the next higher authority of the office inspected with a request to trace/re-construct the concerned records for facility of audit.

3.16 Attitude of Auditors

Auditors should assist the local authorities with advice and may show by means of practical example, if necessary, how account registers should be posted and how a proper check is exercised, in order that there may be no possibility of mistake or omission due to ignorance on the part of the local officials. It is much better to prevent mistakes that in procedure than to discover such mistakes after they have been committed.

3.17 General Audit Instructions

For an intelligent and efficient audit or inspection of accounts, it is necessary that the Audit Party should have an acquaintance with the various Acts, Codes and Manuals relating thereto, and they should also be conversant with the subsidiary rules and orders issued from time to time. They should also keep a

note book in which they should record briefly important decisions contained in Government orders and the orders issued by the department or in the papers sent for circulation. The formal rules for audit should be strictly complied with. Many of these rules represent in concise form from the experience of many years and their value cannot be overlooked. Only they must not be converted into a fetish and applied in a rigid spirit or considered as all sufficing under circumstances where they are obviously inadequate. But when anything less is done than is laid down in them, the Audit team must bring the fact to the notice of the Group officer. Ordinarily they must be taken as the minimum of a good audit.

The value of an audit depends largely on the intelligence and thoroughness with which the work is done. Sometime some informality, some irregular payment or some slight discrepancy is detected in the course of audit. The tendency is to embody this in a formal objection statement, which in course of time is replied to the requirements of the Audit Department. These are complied within the particular case in question and there the matter ends. But what is when it should not end? Small circumstances like these, if taken up, may lead to the detection of larger irregularities or a defect of system liable to lead to fraud, and their value as such must be borne in mind. The AAO should look at everything in a fresh and original way, and when he realizes that he had touched on a matter which may repay investigation, he should go into it with an exhaustiveness which will not leave undiscovered detail. He must take nothing for granted. If there are suspicious circumstances in the accounts, the Auditor should report the fact to the Group Officer.

As the object of the account is to present a true financial picture, intelligent and proper audit requires the visualising of all financial transactions in their proper perspective as a whole and not merely the examination of the details of the transactions which work to the final result. The Audit team should, therefore, prior to taking up the audit of the accounts of any particular institution, consult the printed administrative report of any other Government publications where the accounts of income and expenditure of the institution appear, so that they may obtain a correct perspective of the financial side of the institution and make their audit both intelligent and useful instead of

allowing it to become merely a process of checking registers in a disconnected and mechanical way.

In modern electronic/ IT environment, arithmetic correctness is obvious. Therefore it is the duty of Audit team to read between the lines and to see the propriety of sanction/expenditure and undertake scrutiny of decisions taken by executives.

Auditors should confine themselves to facts which have a bearing on accounts and finances and matters not falling strictly within the scope of audit should not be touched by them. Auditors must call in writing, all registers and accounts of the offices inspected, required for audit purposes.

Note: AAO must examine all records required for audit and if any records cannot be produced, they should make sure of the reasons for its non production and bring such failure, to the notice of the Head of the Office by incorporating paragraph in IR.

AAO/Auditors should not make notes, corrections or remarks in any of the registers or documents of the office which they are auditing. Auditors should not apply merely mechanical checks to payment vouchers e.g. seeing that there is a proper acquaintance in support of payments, that amounts charged are arithmetically correct and that the rates are in accordance with the schedule of rates. In the interest of thorough audit, it is necessary to see that the charges in the bill are not extravagant and if doubt arises, the prevailing market rates may be ascertained through the District Officer. Cases of different rates paid for the same articles observed in auditing the accounts of two or more offices in the same locality should be investigated and the auditors should find out carefully the causes of such difference.

For e.g.:- In Social Welfare Department , grant of messing contract in same village /town to different agencies at different rates is matter of detail scrutiny .

3.18 Check of Cash

If the circumstances in any case warrant this, in such a case the verification should be undertaken as soon as the necessity of the same is felt, and this should preferably be done in presence of the officer in charge. In this connection it may be borne in mind that, if in any case, the cash balance pertaining to a cash book is counted, a simultaneous count of all cash balances

(with relevant accounts) in the charge of the disbursing officer or other custodian of the cash chest is desirable. The same consideration applies in respect of surprise inspections. Wherever cash is verified it should be seen that the cash book is written up to date and all entries should be vouched to the date of verification. It should also be seen in audit that the cash chest contains nothing but the Government money and Government valuables.

3.19 Raising and pursuance of objections

(a) All memos/other documents issued during the local inspection should bear the dated signatures of the issuing officers.

(b) Finally, keep those objections which are fit for its inclusion in the IR and others should be deleted and then draft the IR.

Note 1: AAO should see that the requisitions and memos are promptly dealt with during audit and except in very exceptional circumstances which should be reported to the Group Officer. These must not be left with the local officials after the departure from the place of audit.

Note 2: If in any circumstances any of the objections finally included in the list of unsettled objections have not been made over to the officer whose accounts have been audited.

Note 3: In the case of Government Institutions all small irregular payment should be specially reported so that the Branch officer (Headquarters), the Group officer or the AG may waive the recovery thereof under **para 7.1.16** of the Comptroller and Auditor General's Manual of Standing Orders (Audit) 2nd Edition 2002.

Note 4: It should be understood that only replies enabling an objections to be totally withdrawn, can be accepted. Replies such as 'noted', 'will be done', etc. and partial answers to objections are of no value.

Note 5: IR should not contain the original objections and the reply recorded at the preliminary stage but each objection should be drafted afresh after taking into account the reply of the head of the office.

The AAO should invariably served a Audit memo in respect of all vouchers, documents or other relevant records as are not produced at the time of local audit but are promised to be shown later on. These objections could subsequently be dropped when vouchers are made available before conclusion of audit.

Oral orders and explanation should not be given. Same should be repeated in the form of audit memos.

3.20 Settlement of old objections

(a) Proposal for Settlement of outstanding paras of the earlier IR is one of the important duties of an IO and should be given adequate attention. The IO should take up the work relating to discussion of outstanding paras of previous IRs with the Head of Office and other concerned authorities soon after the audit commences and follow up the discussion. This aspect of the IO's work is important and the IOs should devote considerable portion of his time and attention to this work. The discussion and proposal of settlement of such items of objections in respect of office inspected should normally be done by the IO himself. Proposal for settlement of outstanding objections/paras ultimately depends on the merits of each case and should be dealt with extreme care and caution. However, the following guidelines may be kept in view at the time for proposing paras for settlement which are outstanding in the old Inspection Reports:-

(i) The IO before proposing objections/paras in the previous IRs for settlement should ensure that the office concerned has furnished written reply/explanation for each objection so proposed and their reply is placed on record. He should also record brief justification for considering the objection for settlement in the verification memo. In no case an outstanding objection/para should be treated as settled merely by recording "discussed and dropped".

(ii) Paras which are instructive in nature may be proposed for settlement provided the instructions are noted in writing by the department concerned.

(iii) Paras on non-completion of minor records may be proposed for settlement, if their completion has been made and got verified in audit.

(iv) Paras on procedural matters like non-maintenance of a record, non-obtaining of a certificate relating to personal matters, non-attestation of some entries, etc., may be proposed for settlement when complied with. When such type of procedural objections/paras are outstanding in one or more previous IRs and the irregularity has continued during current audit, the outstanding objections/paras in the previous reports may be dropped and a fresh para

included in the current report mentioning it that it was pointed out in earlier IRs.

(v) Paras which are more administrative in nature may be dropped subject to the noting of the correct procedure by the departmental authorities.

(vi) Recoveries of petty amounts falling within the powers of the waiver under para 7.1.16 of the CAG's Manual of Standing Orders (Audit) 2nd Edition 2002 may be waived by the IO or proposed for waiver by the Group Officer/AG, after issuing suitable instructions to the officers concerned.

(b) It is an important part of the duties of the field staff to see that the defects reported in previous Audit and IRs have been remedied and old objections are settled after review. It may also be possible to develop certain points into draft paras, if their latest position is ascertained and incorporated. The CAG is also laying great emphasis on the settlement of old outstanding paras and IRs.

All AAO (Field) and IOs are, therefore, directed that this item of work should be taken up in all seriousness. Immediately on reaching the office to be inspected, the Head of the Office should be requested for preparation of replies to previous objections. Special attention should be paid to settle maximum number of old objections (including those for which reply has been sent to headquarters office) by the discussion with the Heads of Offices and obtaining requisite information on the spot.

(c) All the IOs/AAOs should incorporate the latest position of the outstanding paras and their recommendations as a result of the discussion which they have with the departmental officer.

(i) All efforts should be made by the inspecting parties either to settle the objections through discussion or transfer the old objection to the new IR by updating them and dropping these from the old IRs.

(ii) The Group Officer should draw up an Action Plan for holding discussions on outstanding IR and objections with the Executive either at Headquarters (AG office or department) or during his inspection to the field offices. Detailed minutes should be drawn up indicating the compliance reports/replies and settle the objections on the spot on the basis of compliance.

(d) Objections for more than 10 years old which are of routine nature i.e. petty recoveries, non reconciliation with treasury, excess expenditure over budget allotment, recoveries from other Government Departments, etc. may be

transferred to the respective Administrative Departments with a copy to the Finance Department for follow up of the objections departmentally. These objections will however, be watched through quarterly returns by the respective wings/sections but these will not be shown as arrears. The department wise list of outstanding paras showing the period, nature of objection, para number and brief gist along with all relevant papers may be forwarded demi officially to Government after approval of Accountant General.

(e) Objections which have already become a part of Audit Report but are under discussion in PAC shall continue to be pursued till final settlement of objections by PAC through **Report section** and hence these paras will not form part of arrears.

3.21 Matter dealt with by Auditors to be kept confidential

Auditors should note that matters with which they have to deal are confidential. The audit is intended to be for the assistance of local officers and the Audit Department is not justified in permitting their shortcomings to become public.

Now on the introduction of RTI act, except those paras which are marked to DP cell as Potential Draft Paras, all other observations can be made available to public on request.

CHAPTER-IV

INSPECTION REPORTS

(Authority: - Compliance Auditing Guidelines para 6.4 to 6.14)

Inspection Report presenting all the findings – both positive and negative – shall be issued by Headquarters within 30 days of completion of audit to auditee unit with a copy to the corresponding next higher level in the organisational hierarchy. A period of four weeks may be allowed to the audit units to provide responses to the audit findings contained in the Inspection Report.

4.1 Collection of information, copies of documents in support of objections, etc.

(a) All objections raised during the course of local audit should be communicated to the Office in charge of the office inspected through Audit Memoranda (AM) issued over the signature of the IO/ AAO. The AM should be brief, precise and to the point. They should only seek confirmation/information and not suggest any conclusion or pre-disposition on the part of the local audit party. The Inspecting Officer shall ensure that to-the-point replies are rendered to the audit observations communicated through the audit memos. If failed, delay should be brought to the notice of the head of the office promptly. Paras for the IR should be prepared only after considering the information/arguments advanced in the replies to AM. Where no replies are received, the para should be prepared on the basis of information gathered from records.

(Authority: - Regulation no. 188 of Regulations on Audit and Accounts-2007)

(b) The IO and the audit party should try to get all the information through accounts and other connected records and obtain explanations on the spot by personal discussion so that AMs are reduced to the minimum. The issue of AM should mostly be confined to confirmation of objections.

(c) The finalisation of material on each objection should not be postponed till the final stages of local audit as this is likely to lead to accumulation of unverified data and it may not be possible to include these objections in the Draft IR due to shortage of time towards the close of Audit.

(d) The IO/ AAO should ensure that the paras which merit inclusion in the CAG's Audit Report are fully supported by attested copies of all the documents referred to in the paras, the view of the head of the office on the paras and other relevant facts and arguments so that there is no difficulty in the OAD (HQ) in processing of the paras for the Audit Report.

(e) The full financial implications of each objection, or approximate value thereof, calculated from the data in hand should be brought out in the IR to stress the significance and gravity of the audit objection.

(f) The amount of overpayments or other irregular payments which have to be kept under objection should be worked out to the extent feasible during the inspection itself and not left to be calculated by the office inspected and intimated to Audit later on.

(g) Where important initial records e.g. cash book, pass books, security registers, etc., are not maintained properly, the IO and the audit party, besides mentioning the technical defects and shortcomings in keeping these records should make a probe to see if the defective maintenance or non-maintenance indicates any misappropriation, etc.

4.2 Compilation of Results of Audit

PART I – Introduction

This part may commence with an overview of the Audit Unit and may provide its functional/ geographical jurisdiction, budget, financial performance and a perspective of the relative significance of the unit in the overall hierarchy of the department in pursuit of organisational goals. This may be followed by a brief explanation of the scope of audit, the sampling procedure followed and the audit sample- including the implemented units, the subject matters selected and the sources of audit criteria that have been adopted to evaluate the selected subject matters. It may indicate that the audit has been conducted in accordance with the applicable auditing standards of CAG.

PART II-Audit Findings (i.e current Inspection Report)

This part shall contain all positive and negative findings pertain to the audit unit and may be arranged in two distinct parts. The first part i.e. Part II A comprising significant audit findings relating to evaluation of the regularity related subject matters/ specific subject matters and propriety related subject matters and second part i.e. Part II B comprising other incidental findings

related to both regularity and propriety aspects. The audit findings should be organised in decreasing order of materiality and significance, if possible.

Presentation of audit findings shall conform to the Auditing Standards and other reporting principles and clearly bring out the applied criteria, the results of evaluation of the subject matter against the criteria highlighting the cause and effect relationship. Audit findings may also appropriately indicate the extent of non-compliance and whether they involve systemic issues or represent isolated cases of non-compliance.

PART III- Follow up on findings outstanding from previous reports

This part may indicate the progress of settlement of audit findings outstanding from previous IRs and list out the findings that continue to be outstanding.

PART IV-Best Practices

Any good practices or innovations, if noticed, during the course of audit may be mentioned.

PART V-Acknowledgement

This part may contain the acknowledgement of the extent of audit units cooperation in all matters including production of records called for in audit. It may also contain details of person holding the leadership positions in the audit units.

Instructions for drafting of Inspection Report (IR).

(i) IR should entirely be in the printed form and its soft copy should be submitted with the IR to the OAD (HQ) section for its approval by Group Officer.

(ii) IR should be prepared only on one side of the paper with sufficient space for corrections. The pages must be serially numbered. All headings of paragraphs should be written on the top of each paragraph.

(iii) IR should be written in a clear and concise manner, the value of a report is not to be judged by its length or number of paras, though every point worthy of notice must be included which should give special attention to all matters which cannot be covered by a set of formal audit rules. Reports must be clearly expressed so that there can be no doubt as to the meaning of the point at issue.

(iv) Each paragraph should first explain the rules or orders infringed, next the transaction objected to, narrating the order of their occurrence, and finally the nature of the irregularity with its likely results.

(v) The IRs should contain only such cases/objections as are really important and likely to be eventually developed into draft paras for the Audit Reports. These should be very carefully drafted as potential draft paras and should invariably include dates (at least one month) of various events or stages involved, e.g., in respect of drawal of amounts from the Treasury, date(s) of supplier bills, date(s) of payments and receipts of suppliers, date(s) of relevant sanctions or orders, particular financial rules or departmental requirements or orders infringed. The financial implications in respect of overpayments, irregular expenditure, non accountal or short recoveries, losses and shortages, etc. should always be mentioned, the full money value involved being assessed or worked out together with person(s)/Official(s)/Officer(s) involved or held responsible.

(vi) The draft paras should be drafted in a detached and dispassionate language and should be factually correct, brief and include all relevant information and financial aspects and dates, and emphasis should be laid on the exact point to be brought out, and only really essential comments which obviously follow may be added as statements or observations without qualifying words “Audit thinks that” or “The audit comments, or Had it been like this/that etc.”. Copies of relevant correspondence/noting from the departmental files or the original files should also be sent along with the Draft Paragraphs.

(vii) All cases of minor irregularities and audit objections pertaining to procedural defects in initial accounts and records, non-production thereof in audit, and other minor objections and contravention of rules, etc. shall be relegated.

(viii) All corrections of minor errors or compliance of financial rules and requirements should be got rectified and attended to and dropped during audit after discussions locally with Heads of Offices. Serious efforts should be made to have as many items as possible settled on the spot by giving proper guidance to the accounting staff, holding discussion with the Heads of Offices and ensuring as far as possible regarding rectification of the irregularities

pointed out during the audit or at least by obtaining commitments to that effect.

(ix) The Report should be couched in polite language. Offensive or strong words, sarcastic language, etc. should always be avoided.

(x) Mention of the names of officials should be avoided except in the case of personal claims, etc. However, the names of the officials responsible for the irregularities should be kept on record in the Rough Notes in all cases of serious irregularities.

(xi) No suppositions, assumptions or allegations should be included in the Report. Only facts should be mentioned and inevitable conclusions drawn. There should be no reference to responsibility being fixed for any irregularity. It is for the administrative authority to take action in this respect.

(xii) No abbreviations should be used. If a set of words, for which an abbreviation is commonly used in the Office locally audited, occurs repeatedly in the Report, the words in full should be used on the first occasion, with the abbreviation in brackets, and thereafter only the abbreviation may be written.

Note 1. Serious notice will be taken, if any serious defects or irregularities omitted are subsequently discovered.

Note 2. If in any case, complete account records are not available of an individual item or head of accounts, it will ordinarily be sufficient to comment on it in the audit. In cases, however, where the amount involved is considerable or where the completeness of the records and information supplied effect the general system of accounts, the matter should be promptly brought to the notice of the Group Officer setting forth full facts for deciding, if the audit should be suspended.

Note 3. The State Government desires that the Inspecting Officer should not merely examine accounts and point out defects, but also convey some assurance to the administration that the accounts are satisfactorily maintained and that there are no indications of dishonesty.

(xiii) When higher sanction for any charge or practice is called for; the rule under which the present authority sanctioned the charge in the first instance is not competent, must be distinctly stated and the authority whose sanction is necessary shall be specially mentioned named. (For e.g. Local purchases of medicines beyond authorisation, local purchases made by Principal of ITI).

(xiv) Auditors will avoid repetition of what has already been said, but it will be open to them to bring fresh criticism on the accounts.

(xv) Auditors should quote freely in the AM the rules in the various codes and rules and sections of the Acts to which reference has been made. When a letter or a Government order is quoted, a copy should be attached to the AM.

(xvi) When Auditors come across cases of shortages in Government stores or defalcation of public money and such cases have not already been reported to that office by the departmental officers, the omission should be commented upon in the Part II (A) of IR.

(xvii) When an Auditor comes across cases where an allowance is being paid to a Government Servant and Government sanction has not been obtained to the allowance, he should report the case to the Sr. Audit Officer/ OAD(HQ) who will inform the same to the **Financial Audit Wing-II** Section with the approval of Group Officer.

Language and tone of the IRs.

(a) Paras in the Draft IR should be self contained and written in simple language so that it is intelligible to one, not familiar with the details of the working of the office locally audited and not fully conversant with audit language.

(b) In order to bring about uniformity in the style of reporting “**Style Guide**” for Audit Reports has been issued by the CAG for adoption which seek to encourage the use of plain simple English - short words, short sentences and short paragraphs.

4.3 Discussion of Inspection Reports (IRs)

(a) The Inspection starts with Entry meeting with Office in charge informing him about scope of audit, period of audit etc.. On completion of audit ,the Draft IR should be discussed with the Office in charge of the Office inspected on the last day of the audit. The discussion should not be postponed and the IO should have prior arrangements with the Head of Office or in his absence with his Deputy. The Report should be finalised on the last day of audit after discussion. In cases where no supervision at the level of Sr. AO/ AO has been provided, the Draft IR should be discussed and finalised by the AAO himself. Where there is difference of opinion, the views of the Head of the Office should be fully recorded against the relevant paras.

(b) After discussion, the Head of the office should be asked to record on the last page of the IR “Seen and discussed” over his dated signatures in token of his acceptance of the facts.

4.4 Submission of Inspection Reports

(a) The Draft IRs after having been discussed with the Department/Office concerned and where possible tentative draft-paras, should invariably be despatched to the OAD (HQ) within three days from the date of completion of an audit. Any excuse for delay in the submission of IRs to the Headquarters will not be accepted.

(b) The Headquarters Section should ensure that the IR is dispatched within three days from the date of completion of an audit. Whenever the submission of the IRs is delayed by an AAO by more than three days, an express reminder should be issued for securing early submission of the reports to Headquarters. The cases of delay in submission of IRs by the local audit parties without adequate reasons should be brought to the notice of the Group Officer.

4.5 Documents to be appended with the Inspection Reports

The following document should invariably accompany a Draft IR submitted to OAD (HQ):-

- (i) Entry and Exit Meeting
- (ii) Daily diary of each member
- (iii) Ranking of IR which should be properly filled in
- (iv) Code of ethics
- (v) Draft IR with soft copy
- (vi) Test Audit Note
- (vii) Verification Memo of IR/TAN (yearwise)
- (viii) Title sheet;
- (ix) Questionnaire
- (x) List of remittances in Treasury
- (xi) AMs with replies
- (xii) List of drawals in duplicate;
- (xiii) Audit Note Book;
- (xiv) Rough sheets;
- (xv) Old IR file.

4.6 Procedure for dealing with Draft IRs in the Head Office

IRs watching register: - A Register for watching the receipt and issue of IRs is maintained in the OAD (HQ) section of head office. On receipt of the IR, columns 1 to 7 of this register should be filled in. Column no. 8 should be filled in at the time of its submission to Group Officer and column no. 9 should be filled in after its approval by the Group Officer. Column showing date of issue should be filled in at the time of issue of IR to the concerned audited unit. The register shall be reviewed from time to time to ensure that all the IRs are forwarded within three days from the last day of audit. Where the IRs are not so received, reasons thereof should be ascertained by reference to the AAO concerned and steps taken to secure early submission of the Reports to Headquarters. The register shall be submitted to the Sr. AO/ AO weekly with a report indicating the number of IRs outstanding at the beginning of the week, the number of Inspections conducted of which Reports up to end of last week awaited, the number of reports issued during the week. The register should be submitted to the Group Officer for his review monthly as mentioned in calendar of return.

4.7 Preliminary Check

After the IR is diarised it shall be subjected to preliminary examination to see that:-

- (i) Local audit has been carried out to the extent prescribed;
- (ii) All columns of the Title Sheet have properly been filled in and the AAO has signed at all places provided for in the title sheet;
- (iii) All statements, certificates and proformas, etc. required as per title sheet, questionnaire and paras of the IR have been received;
- (iv) IR has been discussed with the Head of Office;
- (v) There are no blanks and omissions of any data, etc.
- (vi) The endorsements are correctly made on the AM and IR.

4.8 Vetting of IRs

In the case of local audit/inspections supervised by Sr. AO/ AOs, the IRs should be drafted by the Sr. AO/AOs themselves. Scrutiny as well as vetting of IR should be done by OAD (HQ) wing and approved by the Group Officer.

4.9 Issue of IRs

(a) The important paras which are in the opinion of the OAD (HQ) wing should be transferred to the DP cell that will process them into draft paras as is responsible for dealing with Draft Paras cases.

(b) On receipt of the Draft IR, duly approved by the Group Officer/Sr. AO/ AO, his queries / orders, if any, should be complied with and enter the date of return of the report from the Group Officer/Sr. AO/ AO in the Register for watching the receipt and issue of IR. It is the responsibility of the auditor to see that all errors and mistakes are corrected. In order to ensure that there is no undue delay in the comparison and issue of the IRs, the Auditors should indicate the date of receipt and the date of comparison on the office copy of the IR itself at the time of submission of fair copy for signature. Cases of delay on the part of Auditors, in this regard, should be brought to the notice of the Branch Officer.

(c) After necessary action has been taken as indicated above, the IR should be issued to the audited unit concerned duly entering the date of issue in the control register.

4.10 Time Schedule for issue of IRs

The IRs should be issued within 30 days from the date of completion of the inspection.

(Compliance Auditing Guidelines -6.4)

The following Time Schedule has been prescribed in order to observe these orders:-

(i) The IR should reach OAD (HQ) wing within seven days after completion of audit.

(ii) The IR should be got approved by Group Officer and thereafter it should be edited, compared and issued. Finally, IR should issue within 30 days from the date of completion of audit. Any delay from this time schedule shall be brought to the notice of the Group Officer and his orders obtained.

In the cases in which the IRs have been received but have not been issued within one month from the date of completion of the audit, the concerned Auditor should be reminded and such cases of delay brought to the notice of the Group Officer. Delay in issue of IRs up to one month may be condoned by the Group Officer after satisfying himself about genuineness of reasons. The IRs which are not issued within one month from the date of the completion of

audit should be shown in arrears and the delay should be got condoned from the AG.

In addition to the copy or copies sent to the head of the Government office or institution inspected, a copy of the IR is also sent simultaneously to the next higher authority and his attention is invited specially to important items or serious irregularities or other points requiring his special attention. If the next higher authority happens to be an officer other than the Administrative Ministry/Department of Government, it is for this officer to consider the necessity of forwarding a copy of the IR to the Ministry or Department in whole or in part. (DAG/G&SS discontinued the practice of forwarding IRs to Department/Mantralaya).

4.11 Record of objections in the objection Book

As required under Note 1 below para 7.2.7 of CAG's Manual of Standing Orders (Audit) 2nd Edition 2002, all objections arising out of local audit as embodied in the audit and IRs should be registered in Objection Books with the exception of those objection raised in local audit which cannot be expressed in money values. Necessary action to note the objections in the objection books should be taken after the draft IRs have been approved by the Group Officer. The Number and month of the item of objection books should be noted against each item in the IR.

Before marking any item for keeping in objection book of Headquarters, it should be ensured that-

- (i) Where credit sales are a normal feature of the activities of a concern, only delayed recoveries, which need to be pursued specially with the department are marked for keeping in Objection Book. **(For e.g.:- sale made by Prison Department to other State Government Departments)**
- (ii) Where detailed records to watch recovery of a particular item are already kept in the various sections (such as D.C., Loan) of the office of the AG (A&E) (e.g. advance of pay and allowances, house building and conveyance advances etc.) the items need not be kept in Objection Books.

4.12 Progress Register of Settlement of Inspection Reports

A register to watch the progress in the settlement of IRs should be maintained. Separate pages may be allotted to each unit. At the time of issue

of the IR, it should be entered in the particular page giving number of paras contained in it. The old paras existing in the old reports already entered in the register should be scored indicating the month of settlement. This register will be concise one depicting the position of IRs/paras outstanding at any given time or for more than six months old. A register should be submitted to Branch Officer and Group Officer on the dates mentioned in the calendar of returns.

4.13 Advance Audit Comments

It will be open to the Audit Department to bring at once (i.e. even in advance of the ordinary report) to the notice of the higher authority, irregularities which may be held to be so serious as to justify this course.

4.14 Annotated Copies

After the issue of the IR, all the subsequent correspondence regarding the IR is to be noted in the relevant columns of the register. In the remarks column of the register should be indicated individual number of para / paras outstanding after six months of issue of the report. Paras which are subsequently settled should be circled and cross reference, to the letter No. etc. with which settled, be given. Paras, in respect of which the explanation etc. given by the department has been accepted, subject to verification at the time of next local audit, should be treated as settled for the purpose of the report of the register to be prepared monthly. A report of the register should be prepared and submitted to the Sr. AO/AO of OAD (HQ) on the date as mentioned in calendar of returns. The report should indicate detail cases in which annotated copies were due by the end of the preceding month have not been received. Cases of outstanding IRs for over six months should be indicated separately. The total number of paras outstanding after six months of the issue of the IR should also be indicated in the report.

ANNEXURE I to Para 4.7 (vi & viii)

CERTIFICATE TO BE ATTACHED WITH INSPECTION REPORTS

Certificate of verification of Drawals and remittances.

Certified that the drawals for the selected months are drawn from the record of Try. /Sub-treasury and are verified from cash book of the Office of the _____ and found correct.

Signature of the
person
certifying the
remittances

Countersigned

Assistant Audit Officer

Certified that the remittances for the selected months are drawn from the cash book of the Office of the _____ are verified from the records of Try/Sub-treasury and found correct.

Signature of the
person
certifying the

remittances

Countersigned

Assistant Audit Officer

CHAPTER - V
COMPLIANCE AUDIT
An Overview of the Compliance Audit Guidelines

While reviewing the draft Strategic Audit Plan , CAG has observed as under:-

“ Overarching goal while formulating the Audit Plan should be to remember that aim is not just to raise objections and point out failures but to take a holistic perspective and to make meaningful recommendations which would actually have an impact. Larger issues such as , whether out-dated organisational structures are responsible for inefficiencies in public expenditure , can also be commented upon”.

5.1 INTRODUCTION:-

The chapter inter alia discusses applicability –

- a. to suit the needs of the IA&AD department, the specific adjustments for individual initiative and professional judgement for the AG;
- b. The audit mandate derived from the DPC act;
- c. Definition of compliance audit as a regulatory system to correct the deviations from the determined criteria and rules and regulations with special reference to ISSAI 4100 and CAG’s regulations on audit and accounts 2007.
- d. It is basically concerned with regularity and proprietary audit.
- e. Next is about the three parties involved in compliance audit viz the auditor, responsible party and the intended users.

5.2 General Principles of Compliance Audit

The chapter inter alia lays down that –

- a. The Auditors shall plan and conduct audit with professional scepticism (questioning mind) and exercise professional judgement (application of knowledge, skills and experience) and is expected to observe the prescribed code of ethics, take responsibility for overall audit and

consider audit risk throughout the process and also the materiality of audit objections.

- b. Auditor should also prepare sufficient audit documentation.
- c. Should maintain effective communication and determine the audit scope.
- d. Also has to understand the audited entity and control environment while all the time considering the audit risk especially in regard to fraud.

5.3 Compliance Audit Plan

It is inter alia stated that –

- a. The entire audit universe (i.e auditee units established for a purpose of formulation and implementation of Government policy) by a combined effort implements the Government policy as well as collects revenue and incurs expenditure till the last mile of implementation and this universe is broken down into units for planning and scheduling audits.
- b. An Audit Unit is defined as a unit, which has one or more of the following attributes:
 - Substantial devolution of administrative and financial powers;
 - Functional autonomy; and
 - Operational significance with reference to achievement of objectives of the apex auditable entity.
- c. Further, that this requires **top down, risk based, department centric mechanism** for macro level planning and conducting compliance audits and preparation of annual compliance audit plans.
- d. Also a top down and risk based approach for identification of audit units intends to place the Department/Sector as the centre piece of the audit focus and provide a scientific mechanism of defining audit units.

5.4 Planning Compliance Audit

It inter alia includes planning for individual compliance audit i.e –

- a. Understanding the auditable entity;
- b. Understanding the relevant principles of sound public sector financial management;
- c. Identification of intended users;
- d. Consideration of materiality and risk assessment;
- e. Determining the scope of audit;

- f. Development of audit objectives;
- g. Sampling considerations and
- h. Considerations related to direction, supervision and review of the audit teams.
- i. An audit plan should be prepared especially with reference to the apex auditable entity.

In it the scope of audit should be defined with reference to what to audit, who to audit, where to audit and which period to audit and prepare the compliance audit design matrix with the audit objectives and the relevant criteria.

Then the compliance audit in digital environment, the team composition and intimation to the auditable entity is discussed.

5.5 Conducting Compliance Audit

The Compliance Audit inter alia includes

- a. Gathering of evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the auditable entities.
- b. Audit evidence is the information collected by the auditor for arriving at the audit conclusions.
- c. In the planning phase, the auditors shall review the internal controls and institutional arrangements established by the auditable entity to prevent, detect, and rectify instances of noncompliance.
- d. Also, the audit has to combine and compare the evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence.
- e. Sufficiency is the measure of the quantity of evidence.
- f. The quantity of evidence needed is affected by the risks of the subject matter information being non-compliant or prone to compliance deviation (i.e. the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (i.e. the higher the quality, the less may be required).
- g. Appropriateness is the measure of the quality of evidence; i.e its relevance, its validity and its reliability in providing support for the auditor's conclusion.

- h. The sufficiency and appropriateness of evidence is dependent on the professional judgment of the auditor and is also influenced by several factors.
- i. The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves audit procedures such as document scrutiny, physical inspection etc, evaluating for sufficiency and appropriateness and reassessing risk for further evidence.
- j. Next is the drawing up the audit findings matrix, documentation of audit evidence supporting the audit conclusions and confirming that the audit was carried out in accordance with relevant standards and comprises of audit file with working papers and
- k. Lastly, about the good communication with the auditable units through entry meetings .

5.6 Reporting Compliance Audit

- a. Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.
- b. The top down, risk based approach to conducting compliance audit, is envisaged to provide a department centric view of the extent of compliance. Present the results to the end users in a prescribed form.
- c. A Departmental Appreciation Note may be issued to the Apex Auditable Entity (Department/ Sector) where a specific subject matter has been selected to assess the extent of compliance from a departmental perspective or the Accountant General intends to draw attention of the executive towards system weaknesses etc. It includes broad overview of the department, objectives and scope, audit findings, conclusion and acknowledgement.
- d. A follow up process facilitates the effective implementation of corrective actions and provides useful feedback to the Apex Auditable Entity/ audit units and at the same time facilitates the auditors to plan future audits.

[http://cag.gov.in/sites/default/files/guidelines/Compliance_Guidelines_approved_final_preface.pdf]

CHAPTER VI
GENERAL PRINCIPLES AND PROCESS OF LOCAL
AUDIT

6.1 GENERAL INSTRUCTIONS

This Chapter deals with the general rules and principles in regard to the Local audit of receipts and expenditure. The special rules applicable to individual accounts or types of accounts are given in Manual of the Outside Audit Department Part-III issued by the Principal AG (Audit) I, Maharashtra, Mumbai. They are explanatory of, supplementary to the rules and instructions contained in the M.S.O. (Audit) and other appropriate codes issued by the CAG. It must be clearly understood that these instructions represent the minimum that is expected of an intelligent auditor and should never be construed as limiting the auditor's duties.

(a) It should not be forgotten that what differentiates a local audit from the central audit is that the local auditor has access to basic facts and to the men who deal with them. The auditors should look at everything in a fresh and original way and when they notice that they repay investigation, they should go into it with exhaustiveness which will leave no detail unexamined. Some time some irregular payment or some slight discrepancy is detected in the course of audit and the tendencies is just to embody them in a formal AM and there the matter usually ends. Matters apparently of no moment, if properly pursued may lead to the detection of large irregularities or of as defect of system liable to lead to fraud and their value as such must be borne in mind. E.g. carry forward excess total on expenditure side will result in fraud. Detected on one page initially, micro scrutiny may reveal big embezzlement.

(b) **Local audit has to regard the detection of fraud as one of its duties.** Such detection is almost impossible except at the verification of the original records. The local inspections give the expert eye of the trained auditors an opportunity to detect from the original records suspicious factors which could not come to notice in the Central Audit Office.

Necessary guidelines for dealing with fraud and corruption (October 2003) as approved during IX ASOSAI Assembly October 20 – 26, 2003 Manila, Philippines may be kept in view during audit of records of any organization.

A pre-requisite to an intelligent examination of account is also a study of the budgets, annual accounts and the administrative reports of the institution concerned. The reports of the departmental auditors wherever they exist, should also be studied. A comparative study of the financial results obtained in more than one institution of the same kind might also be profitable.

6.2 GENERAL EXAMINATION OF ACCOUNTS

(a) The Accounts of assessments and collection of receipts, expenditure , stores, cash, measurements, muster rolls, etc., for the entire period covered by the inspection should be inspected and examined generally to see that they are maintained and checked in accordance with the prescribed rules and that the writings do not indicate any attempt to tamper with the records or to evade the requirements of rules. The recorded transactions should be surveyed intelligently and, if necessary, doubtful and abnormal items should be examined closely. Ordinarily, this general examination should be conducted by the AAO himself and not left to his auditors. Where subsidiary registers of cash and stores accounts are kept it should be verified that they are properly maintained and the totals and balances are correctly taken over to the main registers.

b) The nature of accounts record kept in an office depends upon the nature of business of the department/office . Nevertheless, every office handling cash and establishment matters is expected to maintain the following basic accounts record:-

- (i) Cash Book.
- (ii) Bill Register.
- (iii) Contingent Register.
- (iv) Stock Registers.
- (v) Service Books.
- (vi) G.P. Fund ledger and Broadsheets.
- (vii) Token Register

Besides the basic records referred to above, there are other accounts record which an Audit team has to see quite frequently during local audit. The most common records and procedures which have to be scrutinized in local audit are indicated in this Chapter.

c) In examining various registers, etc., it should be seen in general that :-

- (i) Guard files relating various schemes implemented by auditee unit are properly maintained.
- (ii) the Registers under scrutiny are maintained in the prescribed form.
- (iii) the registers are page numbered and a certificate of page counting is recorded by a responsible officer on the first page.
- (iv) all the columns provided therein are correctly filled in.
- (v) the transactions recorded therein are entered in chronological order.
- (vi) there is no evidence of tampering with the entries or pages of the registers.
- (vii) There are no overwriting, erasures, etc. All transactions are properly made by drawing a line through the erroneous entry and inserting a fresh entry under proper attestation by the competent authority.
- (viii) Each register is kept up to date and is reviewed by the competent authority at regular intervals, as provided in the Rules.
- (ix) The recorded transactions should be surveyed intelligently, and if necessary, doubtful and abnormal items should be examined closely.

6.3 Detailed Test Audit

The detailed test audit of the selected month/ months consists of

- (i) audit of the accounts of receipts.
- (ii) examination of the Cash Book.
- (iii) audit of the accounts of Stores.
- (iv) examination of vouchers, which are submitted to Central Audit with original records and with contracts, etc.
- (v) audit of all vouchers not submitted to Central Audit.

6.4 Audit of receipts books

The stock account of receipts books should be examined to see that -

- (i) the number of blank receipt books received agrees with the indent or requisition sent to the press or other authorities and that all such receipt books are kept under lock and key by a responsible officer.
- (ii) only one book is issued to an individual officer on return of the previous used up book and the issues are in chronological order.
- (iii) the number of receipt forms contained in each book has been counted and a certificate to the effect recorded on the covering page under the initials of a responsible officer and all the forms are machine numbered.

(iv) the issue of a receipt book and the return of a used up book are duly recorded and acknowledged.

(v) for cancelled receipt form, there should be both the original and the duplicate portions in the receipt book.

(vi) the stock is periodically verified by the Head of the office and a certificate to that effect showing actual closing balance available in the stock account by counting the numbers of receipts books in hand, should be recorded.

(vii) the return of the counterfoils of the used receipt books is properly watched and that counterfoils are recorded after check.

(viii) Similar verification should be done by the auditors as well.

6.5 Audit of Cash Book

The Cash Book should be checked in detail for the selected months and a general review should be made for other months.

General Examination: Examination of the Cash Book is conducted to ensure that it is being maintained properly, in the prescribed form and the provisions of rules in this regard are being observed. It should be seen inter alia that :-

(i) All transactions of receipts and payments are correctly recorded in a cash book strictly in the order of occurrence and on the dates they actually took place and attested by the Head of the Office in token of check.

(ii) The totals of the cash book, if not checked by the officer-in-charge of the cash book, are verified by a responsible subordinate other than the writer of the cash book who initials it as correct.

(iii) The cash book is closed and balanced daily.

(iv) At the end of each month, the cash in chest is verified by the officer in charge of the cash book who has to mention in his own handwriting and over his dated signatures that the same tallies with the balance appearing in the cash book.

(v) There are no erasures or interpolations and that errors are rectified properly.

(vi) Adequate security as envisaged in Rules in respect of the Cashier has been obtained, accepted by competent authority and relevant document kept in the safe custody of the department.

(vii) There is no tendency to keep unduly large cash balance in hand and that cash in hand of cashiers, etc. does not exceed the amount of security taken from them.

(viii) A complete account of the permanent advance held, if any, is available in the cash book, full details of the cash in hand and un-recouped vouchers are being worked out and clearly recorded whenever the cash book has been closed.

(ix) The expenditure has not been incurred in excess of the permanent advance by spending irregularly from departmental receipts or other undisbursed balances of amounts drawn from treasury for different specific purposes.

(x) Full details of the money (other than permanent advance) held in the cash balance are also worked out and recorded in the cash book whenever the cash book has been closed.

(xi) In the case of undisbursed amount of pay and allowances, the dates of their withdrawal are recorded and no item is held in hand undisbursed for more than three months.

(xii) There is no evidence of removal or tampering with the pages of the cash book, and its pages are duly machine numbered; certificate of count of pages contained in a cash book is recorded under the signatures of the Head of the Office in the fly leaf before bringing the same in use.

(xiii) When the cash book is closed at the end of the financial year, it is to be seen that the permanent advance is fully recouped and does not exceed the sanctioned amount of the advance.

(xiv) In addition to the detailed check of accounts of one month, arithmetic accuracy of cash book should be done for one more month selected as random which should include checking of the opening balance for proper carry forward from the closing balance of the selected months. In the case of biennial or triennial audits and audits in arrears, checking of arithmetical accuracy of the cash book may be confined to two months selected for test check.

The professional audit approach of field party (in audit of cash book) may result in following observations:-

1) Embezzlement of money

- 2) Money received through cash receipts or self cheques from treasury / banks not entered / short entered in cash book
- 3) Totalling mistakes in cash book- showing lower receipt and higher payments
- 4) Showing expenditure without vouchers or on the basis of forged vouchers
- 5) Cash found short during physical verification of cash balance
- 6) Showing transfer of money from one cash book to another but not enter into other
- 7) Money drawn in excess of the sanction order by tempering entries in the sanctioned amount of order/ cheque
- 8) Amount shown as remitted into treasuries / banks through forged cash challan or challan not available or not found deposited during verification of the fact from records of the treasuries/banks
- 9) Amount of withdrawals as per record of treasuries / Banks not entered in the receipt side of cash book
- 10) Delayed entries of receipts and withdrawals in cash books
- 11) Closing balance of cash not carried forward / short carried forward to next cash book / page of the same cash book
- 12) Non depositing of amount lying undisbursed for more than 3 months into treasury / banks
- 13) Delay in remitting receipts into the treasury / banks
- 14) Erroneous refund of revenue / receipts
- 15) Imprest cash book- Imprest allowed in excess of prescribed limit
- 16) Arithmetical mistakes in imprested vouchers and adjustments thereof
- 17) Funds drawn in excess of immediate requirement
- 18) Irregular payment exceeding prescribed limits in cash instead of by cheque with its impact
- 19) Cash book not closed regularly
- 20) Surprise checks of cash balance not conducted as per prescribed frequency in the rules.

6.6 Audit of permanent advances

The permanent advance accounts should be examined to see that:-

- i) The amounts of permanent advances held by various disbursing officers are not in excess of their normal monthly requirements as judged from the expenditure incurred out of these advances;
- ii) These advances are not multiplied unnecessarily by obtaining separate advance for subordinate officers in the same office who may require petty sums for their use; and
- iii) Where an officer spares small portion of his own advance for use by his subordinates who may require petty sums, its acknowledgements are obtained and retained properly on record.

(Authority: Para 3.13.12 of M.S.O. (Audit) 2nd Edition 2002.)

6.7 Register of valuables

In the case of offices/departments which receive a sufficient number of valuables such as bank drafts, cheques, postal orders, etc., it should be seen that all these valuables are noted in a valuable register maintained for the purpose. The register should be examined to see that:-

- i) Each valuable received is entered in this register on the day of its actual receipt.
- ii) Full particulars of each valuable, i.e. the nature of valuable, its number and date, the name of person and office from which received, the name of the bankers, if any, on whom the amount was drawn, the purpose of deposit and the reference to the authority under which each valuable has been received is invariably recorded in this register.
- iii) Proper and complete reference to remittance is shown against each valuable.
- iv) There has been no undue delay in remittances of valuable to treasury for credit to Government account.

6.8 Accounting of non government money

Where, under any special sanction, a Government servant deals with both government and non government money in his official capacity, the government money should be kept in cash box separate from the non-government money and the transactions relating to the latter should be accounted for in a separate set of books and kept entirely out of government account.

6.9 Scrutiny of treasury challans

Treasury challans should be examined to see:

i) that they are presented to the treasury in the prescribed form indicating full particulars of remittances.

ii) that the authorised official of the treasury or the bank has given a legible receipt of the amount received over his official stamp and that it tallies with the amount both in words and figures for which the challan was prepared. It should also be seen that the Treasury Challans have been signed in full as required under Treasury Rules.

iii) that the challan by its appearance does not suggest any tampering in the entry of the amount deposited and that due precautions are taken in writing the amount (both in words and figures) to exclude the possibility of a fraudulent interpolation.

iv) that wherever practicable the signatures of the bank or treasury official signing the receipt on the challan should be compared with those on other challans and the genuineness thereof got confirmed from the Bank or Treasury, if they differ.

6.10 Bill Register: - A Bill Register in the prescribed form is required to be maintained by every officer authorized to draw money from the treasury on bills signed by him. In examining the bill register it should be seen that:-

i) No bill drawn on the treasury escapes entry in the bill register.

ii) The bills are entered in chronological order and on the day on which they are actually signed by the competent officer.

iii) The dates of encashment of bills and the amounts of the bills are correctly traceable in the cash book.

iv) All the columns provided in the bill register are filled in and the entries made therein are attested by the Drawing and Disbursing Officer.

v) The register is reviewed monthly by a Gazetted Officer and the results of review are recorded therein.

6.11 Rush of expenditure

Normally rush of expenditure occurs in March, i.e. fag end of the financial year. Hence expenditure incurred during March of the financial year should specially be scrutinized to see:-

i) that the charges against the appropriations of the year, as brought to account, are regular.

ii) that the liabilities of one year are not brought to account in another year;
and

iii) that irregular methods of dealing with assets and liabilities of the year have not been resorted to, which might either have caused actual loss or extra expenses or might possibly result therein or be otherwise not conducive to financial efficiency.

iv) that, no amount should be given as advance to avoid surrender of funds.

The irregularities liable to occur after accounting heavy expenditure at the end of a year are:-

i) Payments charged off in the accounts but not actually made to the concerned parties at the time;

ii) Payments made before the work or service representing the payment is performed.

6.12 Registers of forms

In case of registers of Forms, besides other checks, special care has to be taken in the scrutiny of stock account of saleable forms, license forms, or the receipt forms to ensure that no such forms are issued without realisation of the cost thereof which should be traceable in the Cash Book.

6.13 Stationery Registers

It should be seen that:-

i) All purchases of stationery and its receipt during the period of audit have duly been accounted for in the stationery register.

ii) Issues of stationery articles are regulated by the sanctioned scale and all issues are bonafide.

iii) Periodical inspections and verifications are made.

iv) Totals and closing balances should be checked.

6.14 Registers of Telephones

In local audit it should be seen that the instructions issued by the Government regarding the expenditure on official as well as residential telephones (which includes mobile phones) are being followed and the registers meant for keeping records of calls made, bills paid for telephone calls, etc. are properly being maintained.

It should be seen that:-

i) Dues have been paid without delay.

ii) In case of private calls necessary recovery has been made, and credited to Government. The receipts may be traced in cash book.

6.15 Audit of securities

It should be seen that:-

i) security is taken as required under rules from persons entrusted with the custody of cash or stores and from contractors for works & supplies and it is in the form prescribed by the Government;

ii) security deposits are covered by a properly executed bond or agreement setting forth the conditions under which the security is held;

iii) Government paper tendered as security is taken at its market value and that a readjustment is made if there is subsequent depreciation in value;

iv) the register of the receipts and disposal of securities is properly maintained and that all entries since last audit are correct, and especially that acknowledgement of depositors for return of securities exists against the corresponding entry of receipt.

v) the register as well as securities are examined at least once a year by a gazetted officer of the Department.

vi) either the securities or the acknowledgement of their authorized custodians (vide Government Securities Manuals) are produced for inspection;

vii) in the case of Post Office Saving Bank Pass Books, also see that they are hypothecated to the Head of the Office for the full amount of security required and are kept in his custody;

viii) In the case of recovery of security deposits from subordinates in instalments, the monthly instalments are regularly recovered, and correctly accounted for in Government account;

ix) Securities and security bonds are kept in safe custody according to the rules in this regard and are not released without specific orders of a competent authority.

6.16 Audit of Contingent Expenditure

The audit of contingent expenditure requires a detailed knowledge on the part of the auditor regarding rules and orders governing the transactions of the department whose account is inspected. All financial rules, delegations and orders affecting expenditure and the other transactions subjected to audit, must be scrutinized before the audit of transactions which they govern is conducted. This should be done with a view to seeing that they do not conflict with the orders of any higher authority and in case they have not been separately approved by a competent authority, the issuing authority possesses the necessary powers. If these powers are clearly defined, it should be ascertained that the orders defining the powers are exactly obeyed in every instance.

Audit checks to be applied to Contingent Expenditure:-

It should be seen that every public officer exercises the same vigilance in respect of contingent expenditure as a man of ordinary prudence would exercise in spending his own money and that the rules regarding the preparation of vouchers as laid down in Maharashtra Treasury Rules are observed by the Drawing Officer.

See that the charges are of obvious necessity, are made at fair and reasonable rates and sanction required, for any special item, has been obtained.

(I) It should be seen that all sub vouchers pertaining to the contingent bills relating to the months selected for detailed check, as are not submitted to Audit Office, are made available to Audit.

ii) See that the rates paid agrees with the rates given in the approved quotations, contracts, agreements, etc., executed for the supply of material purchased.

iii) Where acknowledgements of payments are received in advance and the actual payment is made subsequently, separate acknowledgements of payees are obtained at the time of payment. Such subsequent acknowledgements need not be stamped, if the acknowledgements obtained in advance are already stamped.

iv) Where a single stamped receipt is obtained from a payee in acknowledgement of payment against more than one voucher at a time, a

reference is given on all concerned vouchers and the total amount of such vouchers agrees with the amount for which acquaintance is obtained.

v) See that all paid vouchers and sub vouchers are stamped 'PAID' or so cancelled as to prevent a second claim being preferred against the Government on the same score.

vi) Cash Memoranda from tradesmen are not taken as sub-vouchers unless they contain an acknowledgement of receipt of money and are affixed with stamp where the amount paid exceeds Rs 5000.00. In cases where acknowledgements cannot be obtained, the cash memoranda should be stamped 'PAID' and initialled by the Drawing and Disbursing Officer.

vii) See that all vouchers for purchase of stores bear certificate by the competent officer regarding entry of stores in the relevant stock register indicating the page number of the stock register. Such voucher also bear certificate of the competent authority to the effect that the quantities of stores received are correct. Their quality is good and they are according to the approved specifications, where prescribed.

viii) See that there are no erasures, over writings or alterations of total amount of the bill written in figures or in words. Corrections, if any, are properly attested by the disbursing officer and the amount of bills tally with the actual payee's receipts.

ix) See that suitable notes regarding payments having been made on various sub vouches are also kept on the relevant purchase orders, indents and invoice/bills to prevent double payments.

x) See that where GST was payable on the stores purchased under the provisions of Act, the correct tax was paid in accordance with the specific provisions of the Act.

xi) Records relating to the under mentioned items of contingent expenditure, if any, should also be scrutinized in accordance with the rules, orders, restrictions or scales laid down by the State Government:-

a) Conveyance/ hire charges.

b) Hire of office furniture, electric fans, heaters, coolers, clocks and call bells, etc.

c) Rent for office or residential accommodation.

d) Payments to staff from the contingencies.

e) Purchase of stationery articles.

f) Entertainment/light refreshment.

xii) It should be seen that every payment is supported by a payment order signed by the head of the office or disbursing officer serving under his authority in this behalf. The payment order should specify the amount payable both in words and figures and that all pay orders are signed by hand and in ink. Every payment should be acknowledged by the payee with date. When the acknowledgement on a voucher is given by a mark or seal or thumb impression, it should be seen that it has been attested by a responsible officer.

xiii) Check all payments with vouchers. Those vouchers which sent to the office of the AG (A&E) should be obtained from the office. If any voucher or sub-vouchers, which under the aforesaid rule, should have been submitted to the AG are found to have been retained, the reasons for their retention should be enquired and their submission insisted upon.

xiv) See that the purchase of computers, printers, scanner, photo copying machine, stationery etc. are made in accordance with the rules contained in Delegation of Financial Powers issued by Finance Department from time to time.

xv) In the case of labourers employed at daily or monthly rates, see that muster rolls have been maintained and written up daily by the official immediate in charge, checked periodically by the supervising officer and that a certificate is recorded by the disbursing officer. Check the entries in the Muster rolls with daily reports, if any, submitted by the official in immediate charge to the disbursing officer showing on what work each labourer was employed on a particular date.

xvi) See that (i) each item of payment has been recorded in the contingent register and is initialled by the Head of the Office or other Gazetted Officer authorised in this behalf, (ii) that the amounts of work bills posted in the Contingent Register and included in the total is initialled by the disbursing officer.

xvii) see that (a) the permanent advance is recouped whenever it is running short and in any case at the end of each month, (b) the amount of the permanent advance is not in excess of monthly requirements and larger than

absolutely necessary and that only petty contingent expenditure is met out of it, except as provided in Maharashtra Treasury Rules.

xviii) See that subordinates, who have been given advances out of the Permanent Advance of the Head of the Office, submit acknowledgements at the transfer of charge and in April each year to the Head of the Office.

The following points should also receive attention:-

- a) That the flow of expenditure is even and that if expenditure is unusually large in March, it does not lead to financial irregularities.
- b) That the expenditure is within the available appropriation and that all steps have been taken by the drawing officer with a view to obtain an additional appropriation, if the original has either been exceeded or is likely to be exceeded.
- c) An appropriation is intended to cover all the charges including the liabilities of past years, to be paid during the year or adjusted in the accounts of it. It is operative until the close of the financial year. Any unspent balance lapses and is not available for utilisation in the following year therefore, it should be seen that no money is withdrawn from the treasury to avoid the lapse of budget grant.
- d) All charges incurred must be paid and drawn at once, and under no circumstances they may be allowed to stand over to be paid from the grant of another year.
- e) That no money is withdrawn from the treasury unless it is required for immediate disbursement.
- f) That charges which are inadmissible or in excess of the sanctioned scale have not been sought to be concealed by showing them under contract, contingencies or by splitting them into two or more different bills or classes.
- g) That remittances, to places where there are treasuries or Sub-treasuries, have been sent by Government Bank Drafts or Cash Orders, whenever rules permit and money order fee is not unnecessarily spent. Where there is Electronic Clearance System (ECS), same should be scrutinised.

6.17 Audit of Purchases

Purchases are examined to see that:

- i) They are properly sanctioned by competent authority and are made subject to usual restrictions, regarding the existence of necessary appropriations and to

any monetary limits and other conditions prescribed generally or in regard to specific articles or class of articles;

ii) The instructions governing purchase of stores are followed so as to ensure that they are made in the most economical manner in accordance with the definite requirements of the public services and the purchase orders are not split up to avoid the necessity for obtaining the sanction of higher authority, with reference to the total amount of the order;

iii) As far as possible, demands should be ascertained from the earlier purchase record. Demands of other indenting officers received at the time of purchase have been bulked together, as far as possible, to secure the advantage of bulk supply rates, etc. and the total quantity in respect of all the individual contracts issued against the bulked indents does not exceed the quantity of bulked indents;

iv) Whether purchase has been effected by single tender/quotation or negotiation. If so, whether sanction of the competent authority has been obtained and reasons for resorting to this method of purchase are recorded;

v) All quotations/ tenders were opened on the due date and numbered and initialled with date by the officer opening to it;

vi) The comparative statement duly signed is on record and has been checked with original quotations/ tenders;

vii) Whether any delayed quotation/ tender has been incorporated in comparative statement and considered, and whether orders of the competent authority have been obtained to the consideration and acceptance of these quotations/ tenders;

viii) The lowest offer has been accepted. If not, the difference between the lowest offer and accepted offer and the reasons recorded for rejecting this lower offer should be examined. It should also be seen whether the reasons are adequate. When favourable quotations are rejected on the ground that the capability of the firm was not tried before hand it should be seen if the matter regarding placing of a trial order with a view to secure economy in future purchases have been considered and appropriate action taken;

ix) The successful tenderer has not indirectly derived an advantage over the other tender by the insertion of special conditions which have the effect of raising the rate quoted by him subsequently. x) The purchase price accepted is

within the required limit of the estimated price of the indenter and if not, it should be examined whether confirmation about the availability of additional funds was obtained;

xi) Suitable security as also sanction of the competent authority has been obtained.

xii) No stores of defective and inferior nature are accepted and certified to be satisfactory in quality.

(Para 3.7.19 of MSO (Audit) 2nd Edition 2002);

xiii) The specifications indicated in the quotations agree with those shown in the notice inviting tender/quotations.

xiv) That the articles against Government requirements were purchased from approved sources i.e. Jail factories/ MSSIDC, etc. In the event of non availability, the articles were purchased against rate contracts, if available, otherwise made local purchases within his competency.

6.18 Check of tenders and comparative statements

The tenders received and the comparative statements prepared should be examined to see:-

i) that the widest possible publicity was given for calling the tenders and due (sufficient) period of notice was allowed;

ii) that tenders have been received on the prescribed forms in sealed covers;

iii) that all tenders bear the dated initials of the officer opening them;

iv) that the rates quoted by the tenderer have not been overwritten or changed without attestation by the tenderer and have been correctly transcribed in the comparative statement;

v) that comparative statements have been approved by the competent authority duly checked and contain his orders about the tenders accepted;

vi) that a complete and regular stock account of receipt and consumption of blank tender forms has been kept;

vii) that the sale proceeds of tender forms have been correctly accounted for in the books and promptly credited to Government Account;

viii) that the lowest tender has been determined by working out the cost of all items of work or supplies on the basis of an estimated quantity of work to be done or supplied and not merely by usual comparison of the tendered rates, without reference to the cost of work or supplies involved.

6.19 Check of contracts and agreements

The audit has power to examine contracts and to bring to the notice of the proper authority any cases where competitive tenders have not been sought or where high tenders have been accepted or where other irregularities have come to light. Standing contracts should be reviewed occasionally and if audit has reasons to believe that the rates accepted in those contracts are considerably higher than the rates prevailing at the time of review, such variations should be brought to the notice of the Competent authority. The general checks to be exercised in the course of scrutiny of contracts or agreements are detailed in paragraphs 3.7.1 and 3.7.21 of the CAG's Manual of Standing Orders (Audit) 2nd Edition 2002. The contracts and agreement should further be scrutinized to see:-

- (i) that the terms of contract are precise and definite and there is no room for ambiguity;
- (ii) that standard form of contracts has been adopted;
- (iii) that the terms of contract once entered into are not varied without the previous consent of the competent authority;
- (iv) that the contracts are placed only after tenders have been openly invited and in cases where the lowest tender is not accepted, reasons therefore have been recorded by the officer competent to accept the tender;
- (v) that in case where formal written contract is not made, no order for supplies etc. has been placed without at least a written agreement as regard to price;
- (vi) that provision has been made in contracts for safeguarding Government property entrusted to a contractor;
- (vii) that deviation from conditions of contracts are duly authorised by the competent authority.
- (viii) that no payments outside the strict terms of the contract or in excess of contract rates have been made without the consent of the competent authority;
- (ix) that, as far as possible, legal and financial advice has been taken in the drafting of contracts and before they are entered into;
- (x) that no contract involving an uncertain or indefinite liability or any condition of unusual character is entered into without consent of the competent financial authority;

(xi) that in selecting the tender to be accepted, the financial status of the individual and firms tendering has been taken into consideration in addition to all other relevant factors;

(xii) that when a contract is likely to endure for a period more than five years, it wherever feasible includes a provision of an unconditional power of revocation or cancellation by Government at any time after the expiry of six months notice to that effect;

(xiii) the contract or agreement has been signed by an authority which is competent to enter into the contract;

(xiv) If the acceptance of tender provides full payment to a party other than the contracting firm/supplier, a power of attorney is already registered on the books of the office;

(xv) There is no omission of any important clause, e.g., inspection of stores, dates and place of delivery, despatch instructions, name of consignee, penalty for delay, etc;

(xvi) Acceptances of tenders placed in the later part or fag end of a financial year should be specially scrutinized and any tendency to rush of expenditure brought to notice;

(xvii) The contract has not been made by or on behalf of a minor;

(xviii) The security deposit in the appropriate form and of correct amount has been deposited within the period stipulated in the contract and that in the event of default; penalties leviable under the conditions of the contract have been enforced;

(xix) All the conditions and requirements printed on the contract form have been complied with;

(xx) If the contract has been entered into with a firm, each one of the partners has signed all the documents constituting the contract and if any partner be absent, these forms are signed by his duly constituted attorney.

Supplies to subordinate offices/ units:-

In the state of Maharashtra ,there is system of Centralise Purchases. All the purchases are carried out at Secretariat level / Commissionerate level which is not under audit jurisdiction of this office. Hence, during audit it should be seen that , whether requisition was made for particular supplies, whether it was received in specific period or was delayed/ not received, for how much

period these supplies were lying idle without put to use, whether it is in deteriorated condition ,etc.

In such circumstances , a collective para should be drafted by consolidating information of auditee units and same should be forwarded to O/o Pr.A.G (Audit), Mumbai for further processing.

Following Departments are susceptible for such type of unwarranted supplies:-

Skill Development and Entrepreneurship Department; Medical Education and Drugs Department; Public Health Department; Sport Department; Social Justice and Special Assistance Department; Women and Child Development Department; Tribal Development Department.

6.20 Verification of remittances into treasury

(a) The State Government had instructed all the subordinate offices to carry out monthly reconciliation of the departmental figures of receipts remitted into the treasury with the treasury figures so that discrepancies in the amounts remitted and the amounts credited by the treasury may not remain unreconciled and frauds or embezzlements of receipts may not remain undetected. For this purpose, at the end of every month, the Head of office should prepare a consolidated receipt and forward the same to the Treasury Officer for signatures. The Treasury Officer will send back the consolidated receipt to the Head of the Office after affixing his signatures thereon in token of acceptance or pointing out the discrepancies, if any.

b) It should be seen during local audit that whether the 'Remittance Book' is being maintained in the office inspected and whether monthly verification with the treasury records is being made. With a view to facilitate early detection of embezzlement of moneys, if any, by entry of fictitious remittances in the Cash Book, the CAG had decided that during local audit, credits for the receipts entered in the Cash Book for the months selected for detailed check should be verified directly from the books of the treasury (challan in duplicate submitted to treasury, and treasury officer signed one copy which is retain in auditee unit as a token of remittance into treasury). The AAO should have a list of remittances in respect of the selected months prepared from the entries in the Cash Book. He should then arrange to verify the credits from the books of the treasury by deputing an auditor whenever necessary. The verification

should be made in respect of all remittances made by the office inspected during the months, selected for detailed check.

(c) Discrepancies, if any, noticed by the AAO in the course of the verification, should be investigated and which are not satisfactorily reconciled should be reported in the IR. The AAO should furnish along with the IR a certificate to the effect that the amount deposited into the treasury by the Head of the office during the months selected for detailed check (months to be specified) as recorded in the Cash Book have been verified with the Treasury Records and agree with the same or discrepancies have been reported in the IR.

6.21 Verification of withdrawals from the treasury

The withdrawals made from the Treasury by a Drawing Officer as recorded in his cash book should be verified at the time of local audit with the entries of those transactions, in the Treasury Officer records. For this purpose, the local audit party should prepare a list of drawals for the selected months for the detailed check from the treasury records and verify these drawals with the cash book maintained by the auditee unit. Audit observations in regard to discrepancies, if any, should suitably be commented upon in the IR. A certificate of verification of withdrawal should also be furnished by the AAO with the IR submitted to Headquarters.

Now, the allocation of fund is done through Budget Distribution System (BDS), so same can be viewed on the system by obtaining DDO code of the concerned Head of Office.

6.22 Check of log books of Government vehicles

(a) A list of Government vehicles including staff cars, jeeps, station wagons and trucks, etc. should be called for in local audit from the office inspected. It should be ascertained whether rules and regulations regarding their use and maintenance have been framed and got approved by the Government. It should also be examined whether these rules are being observed in actual practice. It should further be seen whether the following essential records are maintained:-

- (i) Log Books for each Government vehicle.
- (ii) A record of repair of vehicle and replacement of spare parts indicating the cost and the dates on which it was carried out.
- (iii) A record of cost of petrol, oil and lubricants consumed and all incidental receipts and expenditure.

- b) The log books of Government vehicles should be examined to see
- ii) that the vehicle is used only for bonafide public purposes permissible under the rules and orders of Government and not for any private purposes without the orders of the competent authority;
 - iii) that full details of all journeys undertaken are recorded covering the mileage done, places visited and relevant miles in meter recordings;
 - iv) that in the case of authorised private or non-official journeys the charges recoverable, at the prescribed rates, have been recovered and credited to Government;
 - v) that the purpose of journey is always recorded in detail under the signatures of the official using the vehicle, counter signed by controlling officer of the vehicle;
 - vi) that all issues of petrol, oil and lubricants and consumable stores are duly recorded in the log books;
 - vii) that the log books are closed after the prescribed periodical intervals and average number of kilometres run per litre of petrol or diesel is worked out;
 - viii) that the yield of the kilometre per litre is not unduly low and where it is so the causes, leading thereto should be investigated;
 - ix) that the petrol in tank of the vehicle is periodically verified by dip stick measurements or by any other standard method of estimation and a certificate recorded in the log book;
 - x) that a kit of equipment and tools kept with the driver of the vehicle is entered in the log book;
 - xi) that full details of all repairs to vehicle and replacement of parts are duly recorded in the log book;
 - xii) that in cases where frequent repairs to vehicles, engines or replacement of some parts have been carried out, they are not indicative of any foul play;
 - xiii) that a stock account of the condemned and replaced parts and accessories is maintained and their final disposal has been made to the best advantage of Government;
 - xiv) that entries made in the log books are in ink or copying pencil;
 - xv) that entries of mileage at the commencement as well as at the completion of journey are noted in the log books by the officers using the Government

vehicle in their own hand writing and these entries have been signed by such officers;

xvi) that all officials journeys outside the headquarters or jurisdiction of the vehicle(s) are supported by written sanction of the competent authority;

xvii) that Government vehicles are not used for non-duty purposes to places of entertainment, public amusements, parties and pleasure trips, etc. and by officers on leave.

(c) the records of repairs and replacements should be examined to see:-

i) that the cost of repairs and replacements is not on the high side;

ii) that the replacement of some part/parts is/are not repeated in quick succession;

iii) that the reasons for frequent repairs/breakdown of Government vehicles are not such as to indicate negligence of the drivers or laxity of control;

iv) that such repairs and replacements have been executed either by Government workshops or by authorised dealers or garages in accordance with the orders of Government in this behalf;

v) that the replacement of parts, for which a life has been prescribed i.e. engine, tyres, etc., has been made only after completion of the prescribed life;

vi) that the vehicles have been periodically tested and inspected by the Transport Department.

(d) the inventory of equipment is scrutinised to see that it is checked by the Controlling Officer every month and losses, if any, due to negligence or fault are promptly recovered.

6.23 Audit of establishment pay bills

Office copies of Establishment Pay bills are checked in local audit to see that:

i) there is proper and legally valid acquaintance for each amount disbursed, duly stamped where necessary and the amounts are disbursed to the persons entitled to receive them;

ii) An amount on account of pay and allowances remained undisbursed for three months are credited to Government;

iii) arrears of pay and allowances, leave salary, etc. are not drawn through regular monthly pay bills but are drawn in separate bills and a note of payment of arrears in the office copies of the bills for the period to which claim pertains is being made;

iv) Disbursements made are traceable in the Cash book on the dates on which they occurred;

v) The bills relating to Class IV Government servants and such class III Government servants whose names do not appear in the pay bills under the orders of competent authority are audited in the Central audit to see that the number of employees for whom pay has been drawn agrees with the sanction strength of the establishment. The nominal check which consists in comparing the rate of pay of each individual drawn in the bill is correct cannot be exercised in Central Audit, since the pay of such employees from time to time is not recorded in the Fly Leaf of the audit register. In respect of such bills the nominal audit should be conducted in local audit with the help of service books.

Nominal Audit of Establishment Pay Bills

Consequent upon the revision of Establishment Audit Procedure, the nominal audit of establishment has been entrusted. It has, therefore, been, decided by the CAG that the nominal audit of the Pay and Allowance drawn by the individual should be conducted during local inspection in the manner and to the extent indicated in the following paras.

The IOs/AAOs should incorporate separate paras based on the results of local audit of establishment, the service books and leave account.

Nominal check to be conducted during local inspection

(i) (a) The nominal check during local Inspection will be conducted in respect of establishment pay bills for the month/months selected for test audit (under the extent instructions in the case of annual inspections, one month is selected for detail test audit and in the case of biennial or less frequent inspections, two months are selected for detailed test audit. The months so selected for test audit will be the months for conducting the nominal check of establishment).

b) The nominal check will be exercised with reference to initial and primary records containing the authority for the events necessitating the regulation of pay and allowances of Government servants such as increment certificates sanctioning the increment, orders of promotion/reversion and fixation of pay on such promotion/reversion, sanctions of leave and the leave salary, orders of suspension, if any and the subsistence allowance granted to him, general orders of Government governing the pay scales, different types of allowances

admissible and specific orders of Government in regard to grant of special pay or compensatory allowance to any number of establishment or type of establishment. For this purpose, the local audit party will maintain a guard file of general orders governing pay and allowances of establishment. Copies of specific orders relating to particular establishment should be made available to local audit.

Apart from comparing the pay and allowances drawn by each Government servant in the pay bills of selected test audit month/months with the corresponding entries in the pay columns of the service books and checking the acquaintance rolls to ensure that the pay and allowances drawn have been disbursed and acquaintances obtained properly and accurately, the admissibility of pay and allowances drawn for each individual Government servant in these pay bills should be checked completely in the manner indicated above.

c) The above checks should be integrated with the check of service books as already prescribed and when service books are not made available they should be checked independently with reference to the initial and primary records mentioned above.

d) In addition to audit of pay and allowances drawn for the month/months selected for test audit in the manner prescribed above, 20 per cent of (a) cases of increments sanctioned to the members of the establishment of the office under inspection and (b) cases of fixation of Pay on promotion or reversion during the period covered by local audit should also be checked.

e) (i) Nominal audit of establishment will be conducted during the regular local audit of departmental offices. In case any departmental office is not subject to local inspection at all because of smallness of contingent expenditure incurred by that office, it should be ensured that such offices should be subject to local audit at least once in three to five years for establishment audit.

ii) As regards the procedure of audit of pay bills of gazetted officers in whose cases the system of issue of pay slips by audit offices has been dispensed with and pay and allowances are drawn in the same manner as the non-gazetted establishments, the existing system will continue. Instructions contained in

Chapter 2 of Section-III titled as “Gazetted Government Servants” Audit in CAG’s Manual of Standing Orders (Edition 2002) shall also be applicable.

Check of Service Books

General

(a) The local audit party should obtain the sanctioned strength of gazetted/non-gazetted staff under various categories and also a list of staff employed their against on the date of commencement of audit from the office inspected. It should be ascertained whether service books for all Government servants in employment are maintained. In case service books for some of them are not maintained, reasons therefore should be ascertained. Service books are the only document for the verification of service for pensions and as such adequate attention should be paid during local audit to the verification/check of service books. The list of staff members obtained from the office inspected and the number of service books checked should be recorded in the title sheet.

Audit checks

(b) In the audit of service books it should be seen that:-

- i) the service books are maintained in the prescribed form;
- ii) Service book is maintained for each Government servant from the date of his appointment and is kept up-to-date.
- iii) all entries on the first page of the service book are complete, particularly the date of birth, and are attested at least after every five years.
- iv) every step in the Government servants official life is recorded in his service book and each entry is attested by such superior officer, as may be, authorised in this behalf;
- v) the official concerned signs his name in the relevant column of the service book in token of his scrutiny and acceptance of entries made in his service book;
- vi) the period of suspension or any other interruption of service; is promptly recorded in the service book with full details of its duration under attestation of authorised officer.
- vii) Certificates of verification of service are recorded in each service book by the Head of Office. Where, however, the official was on Foreign Service, similar certificate is recorded in respect of the period spent on Foreign Service;

viii) except in the case of clerical error, no alteration in the date of birth once recorded in the service book is made without sanction of the head of the department.

ix) entries in pay columns agree with those shown in office copies of pay bills for the month or months selected for detailed audit;

x) increments have been granted correctly after excluding periods not counting for increment;

xi) all leave sanctioned to a Government servant is recorded in his service book and the debit thereof is traceable in the leave account;

xii) no pay is allowed to a Government servant from the date of superannuation or on the expiry of a term of extension of service sanctioned by a competent authority. Condition, if any, of passing of departmental examination, before grant of annual increment may also be kept in view;

xiii) the certificates regarding verification of antecedents as also of medical fitness are recorded in the Service book;

xiv) the Service Books selected for scrutiny should include those of all Government servants who are due to retire during the next five years. The check envisaged in para 3.3.7 of MSO (Audit) 2nd Edition 2002 should also be exercised during local audit.

xv) Audit checks of pay fixation of Group A & B Officers may be exercised to the extent of 8 *percent* of pay fixation cases.

Check of Leave Accounts (MSO (audit) - 3.3.8)

The following procedure should be adhered during scrutiny of the leave accounts: -

(a) The total number of gazetted/non-gazetted officials in the visited office should be ascertained with reference to the gradation list, establishment bills or other records. This will enable the auditor to make sure that all service books and leave accounts have been submitted for inspection.

b) The object of inspection of leave account is mainly to educate the local officers to maintain these accounts correctly and to discover any mistakes with a view to their ultimate rectification. The auditors should not make any corrections or alterations in the leave accounts themselves but get them corrected by the office concerned, but when these cannot be got corrected on the spot, these should be incorporated in audit memos.

c) (i) The leave accounts of the persons likely to retire before the next inspection should be selected first and checked carefully, thereafter those who have taken long leave and finally of the person who have taken leave rather frequently.

(ii) If, for any reason the service records of persons due to retire before the new audit falls due are not produced to audit, audit memo showing the names and designations of such retiring persons should be issued and the fact of non production of such records should be incorporated in the IR.

d) it should also be seen that:-

i) leave accounts are maintained in the prescribed form in all cases.

ii) credits afforded to leave accounts are correct.

iii) the leave debit to leave accounts is correct.

iv) balances have been correctly worked out.

Check of increment certificates and record of arrear payments.

The increment certificates of Government servants whose names are omitted from pay bills should further be verified to see that notes of the arrear claims due to increment, revision of pay Sanctioned retrospectively, supplementary claims in respect of allowances etc., of Government servants whose names do not appear in the pay bills are kept in the office copies of the original bills for the period to which the arrears pertain.

6.24 Audit of Travelling Allowance (T.A) bills

While auditing travelling allowance bills it should also be seen that:-

i) travelling allowance advance drawn by individuals are fully adjusted promptly and that a second advance is not drawn before an account of the first advance is received.

ii) travelling allowance bills not preferred within **one year** from the date on which they become due (i.e. the date following the date of completion of journey in respect of which the claim is made) are not entertained and the travelling allowance advance granted in relation there to are recovered in full.

iii) Legally valid acquaintance of the person entitled to receive the payment has been obtained.

iv) Amounts on account of travelling allowance bills remained undisbursed for three months should be credited to Government.

Test check of T.A. bill in regard to counter-signatures

The countersignatures of the Controlling Officers on the T. A. Bills are taken as sufficient proof that they fulfilled the responsibility entrusted to them before countersigning. With a view to ensure that the duties assigned to the controlling officers in respect of T.A Bills are properly exercised, the T.A. Bills should be test-checked by the local Audit parties on the following lines:-

i) That stations which could conveniently be visited in one continuous circuit were visited on different occasions necessitating more than one journey from Headquarters in the same direction;

ii) that claims to travelling expenses for journeys performed by special means of conveyance were paid only in cases where the journey had actually been performed .

iii) That there is adequate evidence on which the Controlling Officer has been satisfying himself regarding the necessity, frequency and duration of journey and halts. It should also be seen that where the journey was performed by a State Conveyance, necessary recovery at prescribed rates for the use of the conveyance has been made in cash or deducted in the bills. The results of this test-check and the cases in which the controlling officers did not discharge the responsibilities assigned to them should be incorporated in the IR.

6.25 Checks exercised in local audit of establishment charges

(a) Test check of the initial and subsidiary records kept in the departmental offices regarding establishment vouchers for selected month or months to be examined with cash book, pay bills, acquaintance rolls, bill register, etc. Acquaintance rolls and the register of undisbursed pay and allowances are examined to see that each amount shown as disbursed has been disbursed to the eligible person and the arrangement for keeping a proper watch over the undisbursed amount are satisfactory.

b) Besides, the overtime allowance claims, Children education claims, reimbursement of tuition fee claims, T.A. bills, etc. are checked with reference to the local records kept in the departmental accounts offices to satisfy about the correctness of the certificates on the basis of which the claims have been drawn and to see that during regulating such claims, rules and regulations have been followed.

6.26 Check of Stamp Accounts and Franking machine accounts

Stock account of postage stamps should be scrutinised to see that:

- i) Balances of stock of service stamps /franking machine account have been correctly carried over from previous month or months and that the totals and closing balances have been correctly worked out during the months selected for detailed check.
- ii) All purchases of stamps, whether by cheque/contingent bills/cash, made during the selected months are traceable in the stock register of service stamps.
- iii) Balances of service stamps in hand at the end of each month are physically verified by the competent authority and a certificate to that effect is recorded in the stock register.
- iv) All issues of stamps relating to the speed post/ registered letters are supported by postal receipts.
- v) Where stamps are issued in bulk to branches/sub-offices of the same office for use, proper accounts thereafter are rendered by such branches/sub-offices.
- vi) Service stamps/ franking machine have been used strictly only for official purposes.

6.27 Audit of General Provident Fund Accounts (G.P.fund)

- (a) General Provident Fund Accounts of the Class-IV Government employees are maintained by the auditee institutions.
- (b) The AAO shall be responsible to see that the Departmental Officers, who are maintaining the General Provident Fund accounts of Class-IV employees, are maintaining it properly. He should further supplement his audit with reference to the various rules and orders in the General Provident Fund Rules of State Government. To make himself conversant with the detailed instructions and procedure for the maintenance of the General Provident Fund accounts, the AAO may do well to refer to the relevant G.P.F. Rules of state. It should be seen in the local audit of General Provident Fund accounts that whether subscriptions have been properly recovered and credited to the accounts of the subscribers concerned, whether interest has been calculated properly, whether advances and withdrawals from the Fund have been properly sanctioned and accounted for. It may also be seen that suitable notes regarding receipt of all nominations and insurance have been kept and physical verification thereof carried out from time to time. Final payment

cases should be specifically scrutinised. It should also be seen that the various provisions of G.P. Fund Rules are observed by the Departmental Officers.

(c) The following records are to be checked in local audit:-

- i) Provident Fund Ledger Accounts.
- ii) Broadsheet.
- iii) Statement indicating the totals of debits and credits for each month.
- d) Index Register and Application Forms.

These records are checked to see that:-

- i) The General Index Register is maintained in the prescribed form duly updated;
- ii) Account number was allotted only after obtaining the application for admission duly supported by a nomination in the prescribed form. It should also be seen that particulars of member to whom an Account number has been allotted are noted in the General Index Register and the Ledger.
- iii) For each subscriber there is a nomination or record which has been accepted as valid by the officer competent to do so. The entries of the nomination form are attested by the competent officer in the Index Register;
- iv) A separate ledger folio is opened for maintaining the account of each subscriber.

Applications for admission to General Provident Fund are examined to see that they are obtained in the form prescribed under the G.P. Fund Rules, duly completed in all respect and no employee whether permanent or temporary except reemployed pensioner, is admitted to G.P. Fund unless he has been in continuous service for more than one year.

e) Nomination of the Subscribers.

It should be seen that nomination in the form prescribed under G.P. Fund rules has been received from each subscriber and a note to that effect is kept in the General Index Register and the ledger account of the subscriber. In scrutinising nominations it should be seen that if at the time of making a nomination the subscriber has a family, the nomination is not in favour of any person or persons other than the member of his family as defined in the G.P. Fund Rules.

f) Subscriptions.

- i) The subscribers are contributing at the rate of not less than **six percent of the basic pay** and not more than their basic pay.
- ii) No subscriber is allowed to discontinue subscribing to the Provident Fund except during leave which either does not carry any leave salary or carries leave salary equal to or less than half pay or half average pay or during the period he is placed under suspension.
- iii) The amount of subscription fixed by the subscriber is reduced once and enhanced twice at any time during the course of a year.

(g) Withdrawals

- i) The refundable and non-refundable advances from the Provident Funds are sanctioned by the competent authority only for the purposes laid down in the G.P.F. Rules and relevant orders on the subject.
- ii) The temporary advance is refunded in not more than 24 instalments or not more than in 36 instalments in cases they exceed three months pay, or equal amount in whole rupees.
- iii) The advances are regularly recovered from the monthly pay bills.
- iv) Audit check of final payment cases/transfer advances may be exercised to the extent of *25 percent* of such cases.

h) Interest

- i) The interest on subscriptions and withdrawals is allowed at the current rate prescribed by the Government. The interest worked out by the Departmental Officers should be actually checked by the AAO at the time of local Inspections.
- ii) The interest in fractions of a rupee exceeding 50 paise is rounded to the next higher rupee.

(i) Provident Fund Ledger

The provident Fund Ledger is examined to see that:-

- i) the ledger accounts are maintained in the prescribed form;
- ii) the name, designation and account number of the subscriber and the fact of nomination having been accepted are neatly recorded on the ledger folio assigned to each subscriber. The entries relating to acceptance of nominations are also attested by the competent authority;

- iii) The pay of the subscriber as on 31st March each year is noted in the column prescribed in the ledger;
- iv) The subscription to G.P. Fund is not less than six percent of the pay of the subscriber as on 31st March of the preceding year;
- v) the G.P. Fund account is maintained in whole rupees;
- vi) the Head of the office or a gazetted officer nominated by him initials the Provident Fund Accounts monthly in token of having verified that the amount of subscription deducted, refund of advances, temporary and final withdrawals are posted correctly;
- vii) sanctions to withdrawal from the G. P. Fund are promptly recorded in the ledger accounts and the entries made in the ledger are initialled by the Head of office or a Gazetted Officer nominated by him, while signing the bills for withdrawal;
- viii) subscriptions and refunds of advances as shown in the G.P. Fund schedules duly signed by competent authority and the payment of advances and withdrawals as per vouchers are correctly posted in the ledger accounts of the concerned subscribers;
- ix) Where balances at the credit of subscribers have been received from other offices, complete details thereof are recorded in the ledger under the attestation of competent authority;
- x) Ledger accounts are closed regularly every year and correct amount of interest has been credited to the ledger accounts of the subscribers;
- xi) G.P. Fund Accounts statements are issued regularly to the subscribers every year and their acceptance of the balance noted in their respective ledger account.
- xii) General review of ledger cards exercised where in un posted items, missing credits are to be checked with reference to the original Provident Fund Schedules.

(j) Broad-sheet

Broad-sheet is examined to see that:-

- i) it is maintained in the prescribed form;
- ii) it is closed regularly in every month;
- iii) the total amount of credit booked every month in the broad-sheet agrees with the total of the G.P. Fund deductions made in the pay bills for that month

and that the total of the debits booked in the broad sheet agrees with the total of payment made out of the Provident Fund in that month.

iv) at the end of each year the ledger balances are agreed with the broad-sheet balances and the broad-sheet is squared up to ensure its accuracy.

k) Statement of totals of debits and credits

It should be seen that the statements of totals of debits and credits as worked out in the Broad-sheet each month are correctly prepared.

6.28 Audit of expenditure

The expenditure of Government offices and Departments is audited centrally. But the accounts and supporting documents consist partly of original records and partly of copies of original records. The audit conducted centrally is largely dependent for its efficiency on the degree of care exercised by the departmental authorities over the accuracy of the original records from which the public account is built up. The main object of the local audit of the accounts of expenditure therefore is:-

i) to review such original records as are not received in the Central Office for audit.

ii) to test the degree of care exercised by departmental authorities over the accuracy of such records and to see that they are properly maintained in the prescribed forms; and

iii) to apply a test audit to such accounts, vouchers etc. as are not audited centrally or cannot be checked completely except at a local audit.

(a) Before commencing the audit of expenditure in local audit the budget estimates and the actual expenditure incurred by the office under various heads of account should be examined to know the nature and extent of expenditure under each head of account. It should be seen that the financial rules, delegation of financial powers and other orders specifically pertaining to the office for regulations of its expenditure are themselves introverts and that the audit is effectively conducted against them. The general instructions governing the audit of expenditure are contained in Chapter 2 of Section II of Manual of Standing Orders (Audit) 2nd Edition 2002. These instructions have to be borne in mind and carefully applied in the audit of expenditure so as to yield practical and material results.

(b) Besides INTOSAI's auditing standards i.e. Basic postulates, General Standards, Specific Standards audit work carried out by the auditors may also be kept in view. The auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) which have been adopted with due consideration of the Constitution of India, relevant statutes and rules for the auditing standards for the Supreme Audit Institution of India (SAI). The auditing standards consist of three parts

(Source- Auditing Standards-2017)

- a) Basic postulates,
- b) General Standards,
- c) Specific Standards.

A. Basic Postulates

(i) The basic postulates for auditing standards are basic assumptions, consistent premises, logical principles and requirements which help in developing auditing standards and serve the auditors in forming their opinions and reports, particularly in cases where no specific standards apply.

(ii) The basic postulates are:

- a) The SAI should comply with the INTOSAI auditing standards in all matters that are deemed material.
- b) The SAI should apply its own judgement to the diverse situations that arise in the course of Government auditing.
- c) With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a need for the accountability process to be in place and operating effectively.
- d) Development of adequate information, control, evaluation and reporting systems within the Government will facilitate the accountability process. Management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- e) Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the Government, and audited entities should develop specific and measurable objectives and performance targets.

- f) Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.
- g) The existence of an adequate system of internal control minimizes the risk of errors and irregularities.
- h) Legislative enactment's would facilitate the cooperation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- i) All audit activities should be within the SAI's audit mandate.
- j) SAIs should work towards improving techniques for auditing the validity of performance measures.
- k) SAIs should avoid conflict of interest between the auditor and the entity under audit.

B. General Standards in Government Auditing

The standards common to auditors and audit institutions are:

- a) The auditor and the institutions must be independent.
- b) The auditor and the institutions must possess the require competence.
- c) The auditor and the audit institutions must exercise due care and concern in complying with these auditing standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations.

The general auditing standards for the audit institutions are that they should adopt policies and procedures to:

- a) Recruit personnel with suitable qualifications.
- b) Develop and train employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff.
- c) Prepare manuals and other written guidance notes and instructions concerning the conduct of audits.
- d) Support the skills and experience available within the audit institutions, and identify the skills which are absent; provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit; and have proper planning and supervision to achieve its goals at the required level of due care and concern.

e) Review the efficiency and effectiveness of internal standards and procedures.

Besides, the following audit standards which have ethical significance may be followed:

- The auditor and the SAI should be independent and should avoid conflicts of interest with the audited entity on matters that may impair their independence materially.
- The auditor and the SAI must possess the required competence.
- The auditor must exercise due care and concern in complying with the auditing standards.
- The auditor should at all times maintain absolute integrity and devotion to duty.
- The auditor should not disclose information obtained in the auditing process to third parties, either orally or in writing.

C. Specific Standards in Government Auditing

This section contains the specific considerations regarding their applicability to financial, compliance and performance audits, which the auditor shall observe as specific standards during the conduct of these audits.

The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an opinion by the auditor as to whether the financial statements are prepared, in all material respects, in accordance with applicable financial reporting framework. In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results. Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicions.

Financial reporting frameworks

Financial reporting frameworks are of three types.

- a) General purpose framework;
- b) Special purpose framework;
- c) Frameworks prescribed by law or regulations.

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit.

f) In Financial audit and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

D. Reporting Standards

The following standards with variations apply equally in the scope of these reports.

- a) On the completion of each audit assignment, the Auditor should prepare a written report setting out the audit observations and conclusions in an appropriate form; its content should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise.
- b) The auditor should issue the reports in a timely manner for use by management, legislature and other interested users.
- c) The audit report may be presented on other media that are retrievable by other users and the audit organisations. Retrievable audit reports include those, which are in electronic formats and may be released on the internet.
- d) With regard to audit of financial statements, the auditor should prepare a report expressing opinion on the fair presentation of the financial position of the audited entity in the financial statement.
- (e) With regard to fraudulent practice or serious financial irregularities detected during audit or examined by audit, a written report should be prepared. These reports should indicate the scope of audit, main findings, total amount involved, modus operandi of the fraud or the irregularity,

accountability for the same and recommendations for improvement of internal control system, fraud prevention and detection measures to safeguard against recurrence of fraud/serious financial irregularity.

f) With regard to Performance or Value for Money Audits, the report should include a description of the scope and coverage of audit, objective of audit, area of audit, main findings in respect of the efficiency, economy and effectiveness (including impact) aspects of the area (subject matter) which was audited and recommendations suggesting the improvements that are needed.

g) With regard to regularity audits, the auditor should prepare a written report which may either be a part of the report on the financial statements or the value for Money Audit or a separate report on the tests of compliance of applicable laws and regulations. The report should contain a statement on the results of the tests to indicate the nature of assurance i.e. positive or negative obtained from the tests.

h) Reporting standards constitute the framework for the audit organization and the Auditor to report the results of audit of regularity or performance audit or expressing his opinion on a set of financial statements.

i) These standards are to assist and not to supersede the prudent judgement of the Auditor in making audit observations, conclusions and report.

j) The expenditure 'Reporting' includes both, the Auditor's opinion on a set of financial statements and the Auditor's report on regularity, performance or value for money audit and also the reports prepared on periodical inspection of the records of an audit entity.

Follow up

(i) Adequate, prompt and proper follow up action by the entity on and in the light of audit conclusions projected will enhance the effectiveness of audit and promote public accountability.

(ii) Systems and procedures should be in place and implemented for securing appropriate conclusions and preventive follow up action on audit reports. In subsequent audits and otherwise, the Auditor should examine and report whether satisfactory action was taken on the IRs.

6.29 Internal audit

It should be ascertained whether an internal audit system has been introduced in the entity and, if so, whether the unit responsible is completely independent

of the operating unit. The prevalent system of internal audit should also be examined to verify whether it provides for an objective, timely, systematic and professional examination of financial, administrative and other operations subsequent to their execution for the purpose of their evaluation and verification and whether the system is geared to ensure prompt and adequate follow-up corrective action on the internal audit reports.

(a) Auditors should report the scope of their work on management controls and any significant weakness found during the audit.

(b) Reporting on management controls will vary depending on the significance of any weaknesses found and the relationship of those weaknesses to the audit objectives.

(c) In audits where the sole objective is to audit the management controls, weaknesses found of significance to warrant reporting would be considered deficiencies and be so identified in the audit report. The management controls that were assessed should be identified to the extent necessary to clearly present the objectives, scope and methodology of the audit. In a performance audit, auditors may identify significant weaknesses in management controls as a cause of deficient performance. In reporting this type of finding, the control weaknesses would be described as the "cause".

Checks to be applied during audit of Abstract Contingent Bill/ Detailed Contingent Bill (AC/DC bill) :-

Audit should see that,

- 1) AC bill is drawn in specific format (Form – 29) and for emergent/ essential purpose;
- 2) The amount drawn on AC bill has been utilised for specific purpose for which it has been withdrawn. There shall be no diversion of funds;
- 3) The amount withdrawn shall not be utilised for payments prior to drawl of AC bill;
- 4) The DC bill shall be submitted within one month and the balancer amount ,if any ,shall be credited to Government account;
- 5) No subsequent AC bill shall be drawn before submission of DC bill pertains to earlier drawn AC bill.

Chapter VII

Defalcations and Frauds

Professional skepticism:-

Audit teams / officers should maintain an attitude of professional skepticism (an attitude that includes a questioning mind and a critical assessment of audit evidence) throughout the audit.

(Authority- Standing order on role of audit in relation to cases of Fraud and Corruption- 2006)

Definition of fraud:-

- Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage
- Fraud involves deliberate misrepresentation of facts and / or significant information to obtain undue or illegal financial advantage.

(a) In the event of Auditors finding anything likely to lead to the discovery of a defalcation or fraud or any serious irregularity, the circumstances should be communicated to the Group Officer separately and para should be incorporated in the IR as a major irregularities. When defalcation is of an important nature and in the auditor's mind beyond doubt, intimation should be sent to the Group Officer.

(b) In cases where frauds are suspected during the course of local audit, local Audit Party should take note of the detailed particulars of the documents on the basis of which the fraud is likely to be established and bring the matter promptly to the notice of the OAD (HQ) who may bring this fact to the notice of the next superior authority of the department and, if necessary, to the Head of the Department. Sr. AO /AO of OAD (HQ) should forward such type of paras to the Sr. AO/ AO (DP Cell) who should maintain a register in this behalf where details of the cases are kept on record and action taken by the departmental offices is watched in the usual manner.

(c) In order to streamline and regulate the process, it has now been decided that all Group Officers, while approving an IR should identify and submit to the AG the cases of suspected fraud, corruption warranting vigilance investigation. AG would examine the cases and record speaking orders before

forwarding the extracts of IR paras to the Administrative Secretaries of the Department concerned demi-officially in strict confidentiality, highlighting the need of making vigilance investigation under intimation to the ADAI. The matter would be followed up with the Government till finality. Meanwhile, in case the matter is proposed for inclusion in the Audit Report, the fact of having intimated the State Government for taking urgent action on the matters may also be mentioned in the final Audit Para.

Guidelines for detection of defalcations and frauds

The efficacy of local audit depends largely on the intelligence, thoroughness and resourcefulness which are brought to bear on it. Even an apparently minor defect or irregularity might conceal a potential fraud or misappropriation which may come out through intelligent probe. The inspecting staff should be alive to this and exercise the checks intelligently and not in a mechanical way. An illustrative list of irregularities which are likely to conceal potential frauds is given below for guidance:-

- (i) Erasures, over-writings, interpolations, alterations and un-attested corrections in figures, pass orders etc. in cash books and registers, bills presented at treasuries, invoices, sales bills, receipts etc.
- (ii) Removal of pages from cash books / account books and registers.
- (iii) Tampering in totals and carry forward of totals, especially in cash books and stock books.
- (iv) Errors in totalling in bills.
- (v) Errors in carry over figures from subsidiary register to main registers.
- (vi) Delay in disbursement of money drawn from treasury (including moneys recovered against court attachment, undisbursed salaries, etc.).
- (vii) Non availability of challans in support of remittance entries in cash book.
- (viii) Tampering of figures in challans.

Note: Fictitious entries of remittance in Cash book will be brought to light during the verification of credits for remittances for selected month/months direct from the books of the Treasury.

- (ix) Persistent delay in submission of payee stamped receipts, suppliers' invoices and countersigned detailed bills to audit.

Note: For this purpose a list of such items should be furnished by the Audit units to the Sr. AO/OAD (HQ) along with the vouchers and other documents for scrutiny in local audit.

(x) Payments made on duplicate invoices, absence of proper reference in invoices to entry in stock books.

(xi) Issue in stock accounts not supported by proper indents and acknowledgement issued on free transfer bills not acknowledged by the recipients.

(xii) Failure to cancel sub vouchers or paid vouchers.

(xiii) Bills presented at the treasury without its entry in the Bill Register, interpolations and alterations of entries in the Bill Register.

(xiv) Items of stores, works, etc. paid for in bills and not being traceable in the relevant registers, viz., stock accounts, works registers, measurement books, etc.

(xv) Signing office copies of bills in full, difference between the entries in the office copies and fair copies of the bills.

(xvi) Persistent failure to conduct physical verification of stores or to take action on the verification reports.

(xvii) Entries in important records like Cash Book, stock accounts, etc. not being attested.

(xviii) Absence of proper periodical scrutiny of cash book, stock books, and contingent registers by the Head of the Office or the authorized Gazetted Government Servant.

(xix) Non reconciliation of departmental figures with those of Treasury.

(xx) Non accountal of cheques drawn from the treasury in DDO's Cash Book.

(xxi) IT fraud is an area of concern for audit. Collecting computer evidence requires careful planning and execution. Audit team/ officers should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

Necessary guidelines for dealing with frauds and corruption cases as issued by ASOSAI and INTOSAI's auditing standards i.e., General Principals, General Standards, Field Standards and Reporting Standards may be kept in view during audit of records of any organisation/office. Further "Standing Orders on role of audit in relation to cases of Fraud

and Corruption” issued by CAG office on 06/09/2006 should also be kept in view.

Follow Up:-

In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regards to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.

Illustrative Fraud cases under SS-II wing:-

- Duplicate payments
- Collusive or cartel bidding to fix artificial high price for goods or services
- Defective Pricing by submitting inflated invoices
- Splitting of purchases to avoid open competition
- Supply order in excess of requirement/need
- Wrong selection of beneficiary
- Undue benefit to ineligible beneficiary / person, etc.

CHAPTER-VIII

AUDIT OF PERSONAL LEDGER ACCOUNTS

8.1 Introduction

Ordinarily the opening of a Personal Ledger Account (PLA) is sanctioned by Government after consultation with the Accountant General (Accounts and Entitlement). It is generally recognized that Government should not agree to the opening of such an account unless it is satisfied that the initial accounts of moneys in the PLA are properly maintained and are subject to audit. It will rest with the AG (Audit) to determine whether or not audit of initial accounts should be conducted. If the AG (Audit) decides that this audit need not be undertaken by him on the ground that the money involved belongs to a Local Fund or a Private Fund not administered by a Government servant or for any reasons, it will be for Government to entrust audit of initial accounts to another recognized authority like Local Fund Accounts or a qualified auditor.

PLA in respect of Government schemes could be operated by debit to the consolidated fund. Such accounts are required to be closed to 'Nil' balance at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated fund and may, if necessary, be reopened in the next year after following the prescribed procedure.

Following audit checks are required to be exercised during local audit in the process of opening, operating and handling of PLA by the departmental officers of other institutions:-

1. That the PLA is opened in the treasury with the sanction of the competent authority which is issued with the consent of the AG (A&E).
2. That the PLAs opened by debit to the Consolidated Fund are closed to 'Nil' balance at the end of the financial year and reopened only after following the prescribed procedure.
3. That the deposits/ withdrawals from PLAs relates to the purpose for which the same was opened.
4. That the expenditure incurred out of PLA is in accordance with the financial rules of the Government.
5. That there is no diversion of funds from the PLA into any other head of account and vice versa.

6. Details of the transaction in PLAs shall be worked out and agreed with the balances maintained in the PLA as well as record of the Treasury Officer.

8.2 General Process of Audit:

Cash Book: (i) Trace receipts from the counterfoils of the receipts, cheques and bank pass-book, payments with vouchers, acquaintances, check bank pass-book totals. See that there is periodic reconciliation of treasury/ bank figures as revealed by pass-book and Treasury Officers statement with departmental figures.

(ii) Other register special to any account should be checked applying the checks prescribed in this manual or others for checking these or similar registers in Government Institutions.

(iii) It should be seen that whether the justification on which PLAs was originally sanctioned continued to exist and where it is felt that its continuance is no longer necessary (i.e. no transactions in PLAs over a period of years, the original purpose for which it was created no longer exists, etc.) **A separate reference should be made to DAG (A&E) informing about non transaction over a period of one year; so that action of closure of account can be initiate at their end.**

(iv) In respect of audit of PLAs held within the Public Account, it may be pointed out that the transactions brought to account under public account fall broadly into two categories apart from transitory transactions of Governmental relating to suspense and remittances viz.:- (a) Transactions which represents moneys belonging to non-Government parties (for e. g . Security Deposit of contractors) which are kept with Government for certain purposes and subsequently refunded after the purposes are served or allowed to be withdrawn when necessary, and (b) Transactions which represent levies by law of moneys belonging to or administered by Government (including accounts transferred from Consolidated Fund to Personal Deposit Accounts) which are initially accounted for in the Government accounts (for e.g. OPD charges collected by Government hospitals) and subsequently paid to Private Parties, Public Sector Undertakings, etc. in accordance with the Law or Rules governing the levies or funds.

In case of category (a) above, the audit by CAG may justified and to be restricted only to a check of incomings and outgoings so as to ensure that

payments do not exceed the balances available. It may not be necessary for audit to see how the drawings were or are actually utilised unless the detailed audit of institutions is entrusted to, the transaction will fall under section 13(b) of CAG's (DPC) Act, 1971.

In the cases of PLAs falling under the category (a), the State Government may be asked to entrust the detailed audit of transactions in these accounts to the Local Fund Accounts as these are small accounts and are of no consequence to audit. No useful purpose is served by taking over such audits under section 20(1). We can discontinue such audits in consultation with State Government.

In case of category (b) above, Government have statutory and often various responsibilities for ensuring that these funds are properly administered, that the receipt and expenditure accounted for under them conform to the Law. In such case, the detailed audit of the transactions may be taken up by us, if there is a request from the Government under section 20(1) of CAG's (DPC) Act, 1971 and specific orders issued in each case.

8.3 Instructions regarding audit of transactions of PLA and incorporating their results in the IR on the following checks.

- i) Number of PLAs in a year, any increase/decrease
- ii) Date of opening of PLA.
- iii) Whether opened in consultation with AG (A&E).
- iv) Opening balance as on 1st April of the year.
- v) Amount deposited with/without approval of competent authority.
- vi) Purpose of expenditure.
- vii) Diversion of funds.
- viii) Whether amount deposited un- necessarily?
- ix) Frequency/periodicity of drawals.
- x) Whether drawals authorized by competent authority?
- xi) Whether amount utilized immediately after it's drawal?
- xii) Whether scheme-wise register maintained by the Drawing and Disbursing Officer?
- xiii) Whether transferred from Central/State Plan Funds?
- xiv) Impact on schemes/projects, due to unutilized funds parked in PLA;
- xv) Timely closure of PLAs.

8.4 Inspection Report- Separate Inspection Report should be drawn up in respect of PLA audited, addressed to the Administrator of the account.

CHAPTER – IX

AUDIT OF GRANTS-IN-AID

9.1 General:

- The instructions contained in Section-III, Chapter 5 of Manual of Standing orders (Audit), second edition shall be adhered while conducting audit of grants-in-aid.
- General principals governing the audit of sanctions to grants-in-aid are indicated in the chapter- Audits under section 15 of CAG's (DPC) Act, 1971 in the OAD Manual (Vol-I) issued by the Principal Accountant General (Audit) I, Maharashtra, Mumbai shall also be adhered to.
- Different kinds of grants-in-aid are paid by the Government to various bodies/institutions/schools/colleges, etc. and they are governed by different sets of Rules which should be obtained and studied before taking up audit of such institutions.

Government and Heads of Departments (Jt. Director of Education, Dy. Director of Education at regional level)are required to furnish to audit every year the detailed information about the financial assistance given to various institutes , the purpose (s) for which the assistance was sanctioned and the total expenditure of the institutions.

(Authority: - Ch-5, para- 3.5.4, MSO-2002)

- Field parties should obtain up-to-date information/ position from the departments/ institutions before commencing the audit.
 - An institution-wise Register should be kept centrally containing all information about grants or loans sanctioned and paid to all authorities or bodies.
 - In all the cases in which the grant and/or loan given to the body or authority in a financial year, the Department of the State Government should send to this Office the annual accounts of the concerned body or authority for the relevant year.
 - On the basis of information collected, a review should be conducted and a list should be drawn up of the bodies or authorities, the audit of the accounts of which are required to be undertaken. Simultaneously, the concerned Departments of the State Government should be asked to notify the

bodies or authorities that their accounts would be audited by this office and for this purpose books of accounts should be made available and necessary facilities provided for audit.

9.2 Audit under Section 14 of the CAG's (DPC) Act, 1971.

The criteria that should be followed for deciding whether audit of a body or authority should be undertaken under Section 14 of the CAG's (DPC) Act, 1971, is laid down in the following paragraph:-

1) Where any Body or Authority is substantially financed by grants or loans from the consolidated Fund of India or of any State or of any Union Territory having a legislative Assembly, the CAG, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.

Note: Where the grant or loan to a body or authority from the Consolidated Fund of India, or any State or of Union Territory having a Legislative Assembly in a financial year is not less than Rs 25 lakh and the amount of such grant or loan is not less than 75 *per cent* of the total expenditure of that body, such body or authority shall be deemed to be substantially financed by such grants or loans.

2) Notwithstanding anything contained in Sub Section (1), the CAG may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, audit all receipts and expenditure of any body or authority where the grants or loans in a financial year is not less than Rs 1 crore.

3) Where the receipts and expenditure of any body or authority are by virtue of the fulfilment of the conditions specified in (1) & (2) above, he shall continue to audit the receipts & expenditure of that body or authority for a further period of two years notwithstanding that the conditions specified in (1) & (2) above are not fulfilled during any of the two subsequent years.

9.3 Scope of Audit

(a) CAG has discretion to determine the scope and extent of audit under Section 14 of CAG's (DPC) Act, 1971. In audit of the accounts of the authorities or bodies under Section 14, the principle and instructions for audit of Government transactions should generally be applied, having regard to the

nature of the transactions of the authority or body, its objectives and other relevant factors. The normal procedure for raising and pursuance of objections raised in local audit should be followed. After completing the audit of the body or authority, IR should be sent to the body or authority whose accounts are audited under Section 14 simultaneously endorsing a copy to the concerned Department of the Government.

(b) The usual quantum of test check applied to other items like the checking of the Service Books, Balance sheets, Profit and Loss Accounts etc. should also be applied in these cases. Besides, a test check of pay fixation cases of officers may also be conducted.

(c) Any audit arrangement, extent envisaged for the Body or Authority under the appropriate law governing that Body or Authority will co-exist with the CAG's Audit under Section 14.

(d) It is normally desirable to await the audit of any body or authority being completed and the accounts, duly certified by the Auditors of the body or authority are available, before audit under Section 14 is undertaken by the AG as the accounts so certified can form a better basis for examination, of applicability of Section 14 rather than an uncertified account. If however, there are specific reasons in any case where it is considered essential that audit under Section 14 should be conducted before the accounts are certified, the specific reasons should be recorded before obtaining approval of AG for undertaking audit.

(e) In all such cases, it is necessary to ensure that audit so conducted is sufficient to certify the accounts, if called upon to do so, though it is not necessary that accounts should actually be certified by the Department. Further, the report issued should specifically indicate whether the Auditors appointed have not completed the audit or no Auditors have been appointed as the case may be.

(f) It has been decided that audit under Section 14 should not be delayed merely because of the fact that the audit by its regular Auditors is in arrears. The institutions attracting audit under Section 14 come under scrutiny of Audit Department only once in three to four years. During this period, the Examiner or the regular Auditor is likely to have completed his audit for at least one year and his results of audit would be available. In any event, if it is

seen that audit of any institution is in arrears for a long period, say three to four years or even more, the matter may be taken up demi-officially with the Finance Secretary about the delay in the audit of the accounts of the institution by its regular Auditor/Examiner, Local Funds Accounts. The AG should however, carry out the audit under Section 14 and mention the delay in the Audit Report also. Further, if in any State, audit by the Examiner of any class of institutions which are in receipt of substantial assistance from Government is found to be in arrears, **the AG may consider suggesting a Draft Para for the Audit Report.**

9.4 Guide lines for conducting Audit under section 14.

Audit under section 14 is of all receipts and expenditure i.e. a total audit that would cover not merely accounting or other deficiencies and irregularities, but would go into the efficiency of implementation of programme and activities, raising of resources, the financial position, the impact of the organisation or lack of it, etc. some of the points to be kept in view while conducting audit under section 14 are given below:-

- (i) Whether the organisation has a plan of action drawn up to meet its objectives, whether plans are drawn out in adequate detail for the objectives to be achieved, whether the execution had been as per plan, if not, how and where the planning or execution has gone astray thereby delaying or even nullifying the objectives to be achieved for increasing the costs of such achievement.
- (ii) Whether the body/authority has adequate financial control over budgeting. Are financial powers wisely exercised? Has it tapped its own sources of income adequately and has it taken steps to demand and realise its dues and to pursue cases through proper channels.
- (iii) Whether the schemes entrusted to or taken up by the body/authority for execution with or without government aid are planned properly with an assured source of finance to back them up, that execution proceeds on prescribed lines with due regard to changes necessitated by practical consideration from time to time, that a periodical assessment of the progress is conducted to locate draw-backs and to remedy the same.

(iv) Whether the objective of the scheme has always been kept in view, that benefit as planned has been accruing and the intended beneficiaries take due advantage of the benefits conferred by the scheme.

(v) Whether the bodies/authorities has carried out its activities and has been fulfilling the objectives for which it exists and is substantially financed by Government.

(vi) Whether the body/ authority carries out its activities with due regard to economy in expenditure and accepted norms of financial propriety.

(vii) Whether the revenue yielding schemes executed in past do yield the expected return and that they are not neglected and are properly maintained to produce the required results.

(viii) Whether schemes of research nature are duly planned and executed as per plan, they have adequate personnel of required calibre to man for the required period without interruption or frequent change of personnel, whether period of research is extended with due regard to progress made and whether there is consequential waste of public fund. Whether a stage or goal is set for closure of research schemes and research is directed to the object in view.

(ix) Whether training schemes have a specific purpose and are directed to that purpose and whether achievement of the objective is watched and reviewed from time to time.

(x) Whether the results of research are examined, considered and decision taken/implemented.

(xi) Whether the accounting and stores records are properly maintained and the financial and other rules and procedures are observed in letter and spirit.

It is very important to comment on Surplus staff in the Grant- in- Aid institutions. If such staff continuous to exist, without being transferred to another needy institution, would result in Nugatory Expenditure made on their Pay and Allowances.

9.5 Audit under Section 15 of CAG's (DPC) Act, 1971.

GENERAL

Section 15 of the CAG's (DPC) Act, 1971 refers to the duties and powers of the CAG in respect of grants or loans given for any specific purpose to any authority or body not falling within the ambit of Section 14. Audit of Grants

and Loans has necessarily to start from the sanctioning authorities and the Principles of audit and expenditure will generally apply to this audit.

(a) Section 15(1) has two parts. The first part imposes statutory responsibility on the Audit Department to scrutinise the procedures by which the authority sanctioning a grant or loan for any specific purpose to any authority or body from the Consolidated Fund of India or any of State or of any Union Territory having a Legislative Assembly satisfied itself as to the fulfilment of the conditions subject to which grants or loans are given.

(b) The second part of section 15(1) subject to the proviso thereunder and subject to what is stated in section 15(2) gives the CAG the right of access to the books and account of the authority or body in receipt of such grants or loans where the CAG has this right in terms of section 15, it can be exercised by him at his discretion in other words, it is not obligatory that the books of authorities or bodies, the books and accounts of which are open to audit by the Audit Department, must necessarily be scrutinised.

The IOs of the local audit parties auditing authorities or bodies which sanction grants/loans, shall after examining the accounts of the authorities/bodies where available in the office of the grant/ loan sanctioning authority send separate reports to Headquarters whose local audit may be taken up under the provisions of Section 15(1) of the CAG's (DPC) Act, 1971.

(a) In CAG's letter No. 214-TA-I/35-74, dated 25th March 1974, detailed instructions were given on the scope of audit under Section 15 of CAG's (DPC) Act, 1971 and, inter alia, the instructions were that:-

(1) It is the statutory duty of the CAG to scrutinise the procedure whereby the sanctioning authorities satisfy themselves as to the fulfilment of the conditions subject to which the grants or loans are given;

(2) As it is not obligatory to scrutinise the books of all authorities/bodies the books of which are open for such inspection with regard to Section 15(2), the AG may select a few institutions to begin with;

(3) Important points arising out of examination conducted under Section 15(1) of the books and accounts of selected bodies or authorities may be reported to the Headquarters.

(b) It has been decided that no monetary limit criteria need be prescribed for selecting the institutions for check up of records in terms of section 15.

Depending on the points noticed during the scrutiny of the records of the sanctioning authorities, the decision has to be taken Whether the records of recipient body or authority are to be gone into. For this purpose the AsG may issue suitable guidelines to their field parties.

(c) (I) While scrutinising the records of sanctioning authorities in terms of section 15, the AG may besides any other point they may deem fit to check, have in mind inter alia the points mentioned below:-

Has the sanctioning authority prescribed clear cut procedure for satisfying itself that the grants and loans sanctioned are being utilised for the purpose for which they have been given and whether all the conditions of such grants and loans are being fulfilled.

(II) Such procedures may provide for:-

(i) Submission of periodical progress reports.

(ii) Submission of audited statement of accounts.

(iii) Inspection of the Grantee institutions.

(iv) If so, are these reports being received/inspection done.

(v) Are the reports reviewed when received and by whom and what action is taken thereon?

(vi) Has any irregularity been noticed during inspection? What action is taken on such irregularities?

(vii) A register of grants- in-aid is to be maintained to watch the receipt of utilisation certificates. Is the register being maintained correctly and is it being reviewed and at what level?

(viii) Is a register of assets created out of grants (equipment and buildings) being maintained? How is it ensured that these assets are being put to intended use? Are there any instances of diversion or sale of assets? If so, what action has been taken in such cases?

(ix) What action , if any, is being taken in regard to obtaining utilisation certificates where same was not received, being in cash or by adjustment from other grants.

(x) Has any legal action been taken against the defaulting grantees? Are subsequent grants also being paid despite such defaults?

(xi) In regard to loans what is the position regarding repayment? Is there any arrangement by which it could be ensured that even after repayment of the loans the asset is utilised for the purpose for which it is given?

(xii) Are all conditions stipulated in the sanction to grant- in-aid, fulfilled? How is it being ascertained that the general objective of a scheme of grant- in-aid is being fulfilled? For instance a scheme of grant-in aid may be intended to promote adult literacy or Sanskrit. Is there any report or assessment by which the authorities review from time to time the actual achievements? Is such an achievement reasonably proportionate to the effort and expenditure involved?

(xiii) Such a review could be usefully made over a period of years. For instance, if a scheme of grants- in-aid for promotion of sports has operated for 10 years at the end of which there has been very little achievement, this could be commented upon though it may not exclusively be related to procedure.

(xiv) There may also be defects in the sanction or in the scheme itself which may militate against an effective procedure to check the purpose for which the grant is utilised. Such deficiencies in the sanction or the scheme should also be examined.

9.6 Process of Audit

(a) The audit of grants or loans for specific purposes should begin with a scrutiny of sanctions issued by the competent authorities. It should be seen that:-

(i) They are competent to sanction the loans or grants, and

(ii) While doing so, the financial rules governing them have been followed.

(b) The second step will be to see whether the grant or loan has been utilised by the recipient body or authority for the purpose for which it is sanctioned. The financial rules of the central, state and union Territory Governments make the sanctioning authorities or disbursing authorities responsible for satisfying themselves about the fulfilment of conditions attaching to the grant or loan and furnishing certificates of utilisation to the A&E Office within a prescribed period. To make the audit of grants or loans for specific purpose effective, the first part of section 15(1) of CAG's (DPC) Act, 1971, provides for scrutiny by audit of the procedure followed by the sanctioning authorities in regard to proper utilisation of grants or loans and fulfilment of conditions attached to

them. In exercising this part of check it will be necessary for audit to study the procedure prescribed for the sanctioning authorities to satisfy themselves regarding proper utilisation of loans/grants and to check up whether they are following the prescribed procedure and whether the procedures themselves are not deficient in any respect. Factors like the amount of grants /loans sanctioned existence of prescribed procedural instructions, existence of efficient internal audit and administrative inspection systems in the departments for an effective control over the proper utilisation of grants and loans are to be looked into in this connection. In the light of this examination, decision to undertake the actual scrutiny of the books and accounts of parties or authorities receiving grants/loans for specific purpose may be taken. During the scrutiny of the procedures followed by the sanctioning authorities, the accounts and audit arrangements existing in the recipient body or authority should be ascertained.

(c) Unless proper arrangements in these respects exist and the accounts of the said body or authority stand audited by its usual auditors for the period in question; local scrutiny of its books and accounts may have to be deferred as a matter of prudence till such audit is got completed by the recipient body or authority. The absence of or deficiency in such arrangements and the consequent delay in Audit scrutiny by this office of the books and accounts should be mentioned in a separate paragraph in the chapters on “Grants and Loans” of the annual Audit Report.

In certain States, besides Government, subordinate authorities are also empowered to sanction grants or loans to different bodies or authorities, copies of sanction of which are not received in audit although the sanction of grant or loan implies an outgo from the consolidated Fund. In many cases there may not be any formal sanction but mere counter-signature on bills signifying such sanction. There may be cases where sanctions accorded by subordinate authorities are not sent in advance to audit, but copies of the sanctions are attached to the bills of small amounts, in such cases it may perhaps be impracticable to keep a complete record in the register of grants and loans. In regard to such cases, when local audit is undertaken of the offices of the sanctioning authorities, the IO should scrutinise the records relating to sanctions issued by them and report the amount of grants or loans sanctioned

together with relevant particulars regarding the recipient bodies or authorities to the G.I.A. Section to determine whether the books and accounts of a particular recipient body or authority be scrutinised locally.

The question whether a body or authority established by a State or Union Territory Government would constitute a 'corporation' within the meaning of section 19(3) and whether the audit of such a corporation could be undertaken under section 14 of CAG's (DPC) Act, 1971 has been considered in consultation with the Ministry of Law and Justice.

It has been held that a body corporate established by a State or Union Territory Legislature, having perpetual succession with a common seal, with the power to acquire and dispose of property, contracting obligations and of suing and being sued in its corporate name would be treated as a corporation. It should be noted in this connections that corporations established by law by the Legislature of the State or the Union Territory, as the case may be, which come within the purview of section 19(3) of the Act, but those established under the law will not come within the purview of that Section. Section 15(2) of CAG's (DPC) Act, 1971 however, refers to corporations established by or under the law. Accordingly, all corporations established by or under the law of Parliament or the Legislature of the State or of Union Territory with a Legislative Assembly will come within the purview of Section 15(2) of the Act.

'Specific purpose' grants or loan will include grant to cover deficit but not general purpose grant or loan without any condition. If any doubt arises from a reading of the sanction letter as to whether a grant or loan is for a specific purpose, Government Department's file leading to the issue of the relevant sanction should be consulted.

The scrutiny of the procedure by which the sanctioning authority satisfies itself as to the fulfilment of the conditions, subject to which the grants or loans for specified purposes were given to Municipalities, Municipal Corporation, District Boards, Universities, Co-operative Societies and Panchayat Raj Institutions, may be conducted in respect of these corporations in the office of the sanctioning authority. The books and accounts of the corporation will not however, be open for local audit by the AG, if the law by or under which such corporations have been established provides for the audit of their accounts by

an agency other than the CAG. In other words, in regard to corporations established by or under law made by Parliament or State Legislature, the scrutiny will have to be confined to the records available in the office of the sanctioning authority subject to proviso below section 15(1) of CAG's (DPC) Act, 1971 unless the audit of the accounts of the corporations vests in CAG under section 14 or section 19(3) of CAG's (DPC) Act, 1971 or any other law made by Parliament in which case local audit of the books and accounts of the corporations can be undertaken by the AG.

Grants-in-aid pertains to the year of its drawal

A grant sanctioned and drawn in a particular year is to be taken as pertaining to the year in which it is drawn by the state Government. The small time-lag in the remittance of the grant to the recipient body is to be ignored, since government itself treats the grant as pertaining to the year of its drawal. These guidelines may be kept in view by the Audit parties, while conducting Audits under section 15 of the CAG's (DPC) Act, 1971.

9.7 Reporting of results of Audit under Sections 14 and 15

(a) Though section 15 does not specifically provide for reporting in the CAG's Reports, on the result of audit of loans/ grants for specific purpose, since expenditure out of the consolidated Funds is involved, reporting thereon will be within the purview of Section 13 of the Act.

(b) Important irregularities noticed during the scrutiny of procedures in the office of the sanctioning authorities and/ or scrutiny of records of the recipient bodies or authorities may also come to be featured in the Audit Report distinctly and separately in a chapter on Grants/Loans given by Government. In this chapter, the important points arising out of the audit under Section 14 and those arising out of the scrutiny under Section 15(1) should be distinctly brought out in separate paragraphs.

(c) In regard to grants/loans to bodies or authorities, not coming under the scope of Section 14 and also not coming under Section 15(1) due to non-mention of any specific purpose in the sanctions, such items should be listed out and mentioned distinctly in separate paragraph of this chapter, so as to bring to the notice of the Legislature the number of such cases and quantum of money involved that remain unaudited by the Indian Audit Department, though it constitutes expenditure out of Government Funds.

The paras under Section 14 should clearly indicate the years audited and the important items of receipts and expenditure, and also how Section 14 is attracted. Where annual accounts are certified by Chartered Accountants or Examiner local fund Accounts, this should be indicated. As audit under Section 14 is an audit of all receipts and expenditure, the para should generally cover all major items of receipts and expenditure besides commenting on the state of accounts, budget and internal control, stock accounts and verification, etc. Also wherever feasible the programme of the organisation should be assessed for efficiency and economy, highlighting lapses in procedures and systems, lack of impact, etc.

In nutshell following checks are to be exercise while conducting GRANT-IN-AID (GIA) Audit:-

- 1) Whether GRANT-IN-AID has been released as per terms and conditions of GIA scheme
- 2) Whether the terms and conditions have been observed by the Grantee Institutions
- 3) Whether the GIA has been utilised for the purpose for which it was provided
- 4) Has the Grantee institutions submitted accounts of expenditure, Utilisation Certificate and other Reports in time Has the Grantee institution
- 5) Whether position of surplus staff intimated to Government Authorities and action of adjustment of surplus staff has been initiated by Department immediately.
- 6) Whether regular assessment is being carried out.

CHAPTER X

PEFORMANCE AUDIT

(Based on Performance Audit Guidelines – 2014)

10.1 Introduction

1. They inter alia outline principles, objectives, approach, methodology, techniques and procedures for conducting performance audits. These guidelines are based on the existing guidelines of C&AG of India and International Standards of Supreme Audit Institutions- (ISSAI) 100, 300 and 3000 and ASOSAI Performance Auditing Guidelines
2. The Accountant General is expected to make situational or subject specific adjustments to the provisions set out in these guidelines.
3. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations for improvement.
4. Performance Audits is required to address the issues of economy, efficiency and effectiveness.
5. Performance auditors may find answers to the following two basic questions:
 - a. Are things being done in the right way?
 - b. Are the right things being done?
6. The main objective of performance auditing is to constructively promote economical, effective and efficient governance. It also contributes to accountability and transparency.
7. Public Sector audits have certain basic elements (i) Three parties in the audit i.e. the auditor, the responsible party, intended user, (ii) the subject matter information and (iii) criteria to assess the subject matter.
8. The subject matter of a performance audit need not be limited to specific programmes, entities or funds but can include activities (with their outputs, outcomes and impacts) or existing situations (including causes and consequences). The subject matter is determined by the objective set out and formulated in the form of audit questions.
9. Audit criteria within the context of performance audit are audit specific, reasonable standards of performance against which the economy, efficiency and effectiveness of operations can be evaluated and assessed. These could be the rules and regulations in force.

10. As in all audits, the users of performance audit reports seek confidence about the reliability of information in the reports. The performance auditors should, therefore, in all cases provide findings based on sufficient and appropriate evidence and actively manage the risk of inappropriate reports.
11. Performance audits provide entities and stakeholders with information and assurance about the quality of management of public resources and also assist public sector managers by identifying and promoting better management practices.

10.2 Definition:-

Performance audit is an independent, objective and reliable examination of systems, operations, programmes, activities of the Department in accordance with the principles of economy, efficiency, effectiveness and ethics. The main objective of performance audit is to constructively promote economical, effective, efficient and ethical governance which includes accountability and transparency. It aims to evaluate the subject matter against criteria. Performance audits are designed to provide a reasonable assurance with a set of conclusions and to present a balanced report by taking into account all relevant view points.

10.3 Mandate and General Principles of Performance Audit

1. The audit mandate of the Department is derived from the Constitution of India. Article 151 of the Constitution of India provides that the reports of the Comptroller and Auditor General of India relating to the accounts of the Union or a State government shall be submitted to the President or the Governor of the State respectively, who shall cause them to be laid before each House of Parliament/ Legislature of the State.
2. The General Principles are –
 - a. Auditor should comply with the relevant ethical requirements and be independent.
 - b. Auditors should set a clearly defined audit objective that relates to the principles of economy, efficiency and effectiveness.
 - c. Auditors should choose a result, problem or system-oriented approach, or a combination thereof, to facilitate the soundness of audit design.

- d. Auditors should establish suitable criteria which correspond to the audit questions and are related to the principles of economy, efficiency and effectiveness.
- e. Auditors should actively manage audit risk, which is the risk of obtaining incorrect or incomplete conclusions, providing unbalanced information or failing to add value for users.
- f. Auditors should maintain effective and proper communication with the audited entities and other parties sharing the responsibility of the subject matter throughout the audit process and define the content, process and recipients of communication for each audit.
- g. Collectively, the audit team should have the necessary professional competence to perform the audit. This would include in addition to the knowledge of the domain of the audited entity, sound knowledge of auditing, research design, social science methods and investigation or evaluation techniques, as well as personal strengths such as analytical, writing and communication skills.
- h. Auditors should exercise professional scepticism, but also be receptive and willing to innovate.
- i. Auditors should apply procedures to safeguard quality, ensuring that the applicable requirements are met and placing emphasis on appropriate, balanced and fair reports that add value and answer the audit questions.
- j. Auditors should consider materiality at all stages of the audit process. Thought should be given not only to financial but also to social and political aspects of the subject matter, with the aim of delivering as much added value as possible.
- k. Auditors should document the audit in accordance with the particular circumstances thereof. Information should be sufficiently complete and detailed to enable an experienced auditor having no previous connection with the audit to subsequently determine what work was done in order to arrive at the audit findings, conclusions and recommendations

10.4 Strategic Audit Planning and Selection of Subjects

- 1. Strategic Audit planning is the process of determining the long term goals for the Department and the best approach for attaining them. It consists of

strategic goals (mission statement), strategic objectives (more specific and detailed statements) and strategic measures to attain them.

2. Strategic Audit Plan of the Department sets out a vision that provides an important starting point in deciding what to audit; sets out the outcomes that we are trying to achieve and in general, better managed government programs and better accountability to Parliament and the public.
3. Before preparing the strategic audit plan, it would be useful to develop a sound understanding of: general economic and social conditions; government priorities, goals and programmes; and the regulatory and accountability frameworks within which the audited entities operate.
4. One of the important components of annual audit plan is the selection of specific subjects for performance audits to be undertaken in the audit cycle. The audit plan component for the performance audit would typically include subjects relating to specific sectors or the states under their audit jurisdiction and also certain audits with All-India scope.

Selection of subjects:-

- a. Risk profiling of audited entities, sectors and programmes help in deciding the selection of subjects.
- b. A topic will have a high significance if the project or activity it addresses is central to the functioning of the entity.
- c. Visibility of a subject is an assessment of the interest it generates in the general public and the legislature.
- d. Past audits by the Department could provide an index of significance, materiality and risk of the subjects.
- e. Estimated impact of the performance audit is also a criterion for prioritisation. This could be the impact of improved economy, efficiency and effectiveness of the entity, project or activity which is the subject of performance audit.
- f. Coverage refers not only to previous audit coverage by the Department but also to other independent reviews of the activity
- g. The stage of the programme development should also be kept in mind when assessing management performance.
- h. The Accountant General may elicit suggestions from the Executive or those charged with governance of the audited entities for the subjects or

areas which could be selected for audits maybe through holding of seminars etc.

The data and information gathered for strategic planning for performance audits and risk profile of the entity or programme should be updated periodically

10.5 How to plan individual performance audits

1. Through Pilot Study
2. By developing Guidelines and assessing resources
3. Through development of a detailed audit proposal that identifies the specific audit tasks to be undertaken
4. By drawing up an audit proposal after –
 - a. Understanding the entity/programme;
 - b. Defining the objectives and the scope of audit i.e answering questions such as what, where, who, which period;
 - c. Determining audit criteria;
 - d. Deciding audit approach (system oriented, result oriented and problem oriented);
 - e. Developing audit questions;
 - f. Assess audit team skills and whether outside expertise required;
 - g. Preparation of Audit Design Matrix;
 - h. Establishing time table and resources;
 - i. Intimation of Audit programme to audit entities.

10.6 Various Elements of Implementing the Performance Audit

1. This chapter contains the practices and procedures to be followed by the audit team during the implementation of the performance audit.
2. Entry conference at the commencement of performance audit is to be held with Secretary of the department concerned by the Accountant General. The purpose of this conference is to inform the entity about the areas to be audited along with audit objectives, the audit approach and the time-frame within which the audit is expected to be carried out.
3. Accountant General should send an engagement letter to the Secretary/Chief Executive of the entity, communicating the launch of the audit along with details of the entity units tentatively selected for audit

and the timeframe for audit and request him/her to issue necessary directions to the functional officers and field units

4. The steps involved in field audit process to collect, interpret and analyse the data in relation to the stated audit objectives are as under:-
 - a. Entry Meeting besides Entry Conference before commencement of the audit of selected auditable units.
 - b. Information may be gathered on the basis of physical evidence, documents (including written statements), oral testimonies (interviews), or by other means depending on the objectives of the audit.
 - c. Audit findings are the specific evidence gathered by the auditor to satisfy the audit objectives. The audit design metric and the audit findings matrix assume importance.
 - d. Developing Recommendations
 - e. Exit Meeting
 - f. Supervision

10.7 Aspects Relating to Evidence and Documentation

Audit evidence is the information collected and used to support audit findings with the concept of competence, relevance and sufficiency of evidence, particularly in the context of performance audits.

Some factors that may affect the competence, relevance and sufficiency of the evidence are:

1. Samples selected are not representative (sufficiency);
 2. Evidence collected relate to an isolated occurrence (sufficiency);
 3. Evidence is incomplete and does not establish a cause and effect relationship (sufficiency, relevance);
 4. Evidence is conflicting (competence); and
 5. Evidence is biased (competence).
- Evidence can be categorised with reference to their type as physical observation (photographs, charts, maps, graphs or other pictorial representations, etc.) oral (audit interviews and inquiries), documentary (physical or electronic form) or analytical (analysis and verification of data).

- The sources of evidence may vary from case to case. The following are however some illustrative sources of evidence:
 1. Policy Statements and Legislations
 2. Published Programme Performance Data
 3. Management Reports and Reviews
 4. Files of the entity on the subject
- Meticulous documentation of the evidence supports the audit conclusions and confirms that the audit was carried out in accordance with relevant standards.
- All relevant documents and information collected and generated during a performance audit constitute the working papers. Ideally the working papers should consist of three sections – each linked to the other: planning; execution and reporting.
- Documentation in a performance audit requires maintenance of audit file along with set of working papers.

10.8 Reporting Process of Draft Performance Audit Report

The reporting process is illustrated as under:-

1. Preparation of audit observations
 2. Draft report issued to the entity
 3. Response of the entity
 4. Exit Conference
 5. Sr. Management response to the report
 6. Draft Final report
 7. Response of the entity or those charged with Governance on Draft Final report
 8. Final Report
- An Audit Observation is defined as an area of potential control weakness, policy violation, financial misstatement, inefficiency in programme implementation and achievement of programme objectives, or other problematic issue identified during the audit.
 - The audit teams should be encouraged to use Audit Design Matrix as well as Audit Finding Matrix for cross reference to ensure that nothing is left out.

- The draft audit report is to be prepared upon conclusion of the field audit of the controlling unit of the entity and all field units selected for audit. The purpose of preparation of the draft report is to seek formal response of the entity audited.
- It is important that the entity is persuaded to provide written response to the draft audit report.
- The performance audit should be concluded with an exit conference with the Chief executive of the audited entity e.g. Secretary/ Pr. Secretary to the Government concerned as the case may be.
- In case any information is required from third parties, audited entity would requisition the same from the third party and provide to Audit.
- The supervision and review by the headquarters of the audit report prepared by field audit offices with particular reference to the audit findings and conclusions, recommendations, evidence, drafting, etc is a measure of quality control.
- After incorporating the replies of audited entity and modifications suggested by headquarters, the draft final report should be prepared.
- Then send the bond copy of the report with appropriate annotations for the approval of the report by Comptroller and Auditor General, after which the report stands cleared for printing.
- Characteristics of a good report include completeness, objectivity ensured through balanced content and tone, the conclusions and recommendations follow logically, the report is easy to read and understand and consistency throughout.

10.9 Follow-up Procedures

The objectives of follow up of performance audits are –

1. Assisting the legislature
2. Achieving improvements in performance of the public sector program
3. Evaluating the Department's performance
4. Providing an input to the strategic planning of performance audit by the Department.

The outcome of follow up procedure is continuous improvement and inventory of recommendations. An annual follow up programme should be undertaken to provide feedback to the legislature.

[http://cag.gov.in/sites/default/files/guidelines/PA_Guidelines2014.pdf]

CHAPTER-XI

INTERNAL CONTROL

Internal controls are essential to 'good governance' and may be understood as activities and safeguards that are in place to provide reasonable assurance that things are "going as planned." The credit for providing a versatile framework for the contemporary professional practice of internal controls goes to the Committee of Sponsoring Organisations (CoSO) initiative. CoSO was originally formed in 1985 in USA to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative which studied the causal factors that can lead to fraudulent financial reporting. An array of concepts and views of internal control had developed over the years, expressed in various legislation, regulation, professional standards and guidelines, public and private reports, and a substantial and diverse body of academic literature. The scope of these writings was as broad as the wide variety of purposes internal control could serve and the many perspectives from which it could be viewed. CoSO was primarily an effort to integrate and unify the concepts of internal control. It emphasized the importance of the control environment, codes of conduct, competent and involved audit committees and an active and objective internal audit function. The CoSO study and the resulting 1992 report (Internal Control - Integrated Framework) was initiated to provide a common basis for the understanding of internal control among all parties and to assist management to exercise better control over an enterprise. Since its publication in 1992, the CoSO framework has had exceptional success and is widely accepted as the global standard for Internal Controls in both public and private sectors. The CoSO framework for internal control has been adopted by the INTOSAI and several other SAIs for evaluation of internal control within organizations. In many countries like the U.S. a series of legislations have been enacted that require public agencies to institute and support internal control mechanisms and to explicitly acknowledge the responsibility for internal controls over accurate financial and operational reporting.

11.1 Definition:

Internal control is broadly defined by CoSO as a process, effected by people and designed to provide reasonable assurance regarding the achievement of the following three objectives that all organisations strive for:

- Economy and efficiency of operations, including achievement of performance goals and safeguarding of assets against loss;
- Reliable financial and operational data and reports; and
- Compliance with laws and regulations.

From the above definition it is important to note the following key concepts

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is effected by people. It's not merely policy, manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.
- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

(Authority: - Internal Control Evaluation Manual pg.1)

Weak internal control not only permits fraud, they actually encourage it. (pg.11)

To achieve quality, processes must first be in control. To improve quality, controlled processes must be measured and evaluated to identify obstacles to success. Effective internal control opens the door that leads to achievement of success. The approach presented by the CoSO framework goes directly to the one key issue of any organisation - is there reasonable assurance of achieving our mission, objectives, goals and desired outcomes, while adhering to laws and regulations; and can we accurately report our success and outcomes to the public and interested third parties.

11.2 INTOSAI Guidelines for Internal Control

INTOSAI, in its latest guidelines has completely integrated the CoSO concepts of Internal Control. The definition and objectives of Internal Control have, however been extended to include the following

- 'fulfilling accountability obligations' in place of 'reliable financial data and reports'

- ‘executing orderly, ethical, economical, efficient and effective operations’ in place of ‘economy and efficiency of operations including achievement of performance goals’
- ‘Safeguarding resources against loss’ has been added as a distinct and separate objective in place of the earlier ‘safeguarding assets against loss’ included as a part of the operational objective in the CoSO definition.

Ethics has been made an important control objective as ethical behaviour by public servants is considered a keystone of good governance. A practical dimension of this objective would be to have fraud control measures in place. Orderly and effective terms bring in systems and performance outcome aspects. Since budgetary accounting on a cash basis (common in the public sector) does not provide sufficient assurance relating to maintenance of records of assets/resources, safeguarding of resources has been made an important control objective and the word ‘assets’ has been replaced by the word ‘resources’ which has a wider connotation. Accountability obligations in the corporate sector are fairly well defined in law (as well as professional accounting/reporting standards) and the Annual Reporting requirements including the Directors Report and Annual Financial Statements are well established practices. For the public sector, accountability is realized by maintaining reliable financial and non-financial information and fair reporting to internal and external stakeholders. For instance, budgetary assumptions, internal policy formulations, qualitative reports on performance, replies to legislative queries could all be brought within the orbit of internal controls.

11.3 Audit of internal control: Indian context

In India, no specific internal control legislations have been enacted. In the absence of specific legislation, the requirement for maintaining internal control is not clearly recognised as an explicit management responsibility. The traditional view that internal controls are the manualised rules and procedures guiding departmental functions still persists. Many procedures thought to be "internal controls" are simply processing procedures required to capture and record data, but they provide no effective "control." An audit of internal controls relevant to an audit objective is very often an exercise to secure compliance with applicable laws and regulations. The control environment is usually a given endemic situation and there is very little managerial flexibility

in improving the situation. Risk identification and assessment is informal and rudimentary; and very often only an intuitive exercise motivated by the desire to cover short-term personal/departmental risks to career/reputation. Adoption of the CoSO framework would involve a paradigm shift in the managerial approach towards internal controls and internal audits. A moot point is whether the CoSO framework could be utilized for the audit process when far from being a statutory requirement it is not even a general expectation from the managerial class. The Committee felt that in the current global scenario of converging professional practices, it was inevitable that CoSO would emerge as the benchmark criterion for the management of internal controls. Accordingly through our audits we could recommend adoption of better practices in this area.

11.4 Components of Internal Control

Internal controls are “the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the organization in an orderly and an efficient manner, ensure adherence to management policies, safeguard assets and secure, as far as possible, the completeness and accuracy of records”. Internal controls broadly consist of the control environment and control procedures. While the former reflect the attitude and commitment of the management towards running the organization, the latter are the processes established to reassure that the specific objectives of the organization are met. For control procedures to work in the fashion envisaged the various functionaries in the organization must perform their jobs correctly. Errors of judgment or misinterpretation, negligence and the like can undermine the effectiveness of internal controls. More serious impairment can arise out of abuse of authority or from collusion between functionaries to circumvent controls for perpetrating fraud. Therefore, the mere fact that internal controls are in place is not enough. The internal controls must be periodically assessed for their adequacy to ensure that they are being adhered to in the manner envisaged.

Internal Control is an intrinsic part of all systems within the organization. It is built in to the systems and is used by the managers to guide its operations on a continuous basis, it should not be thought of as a separate system within the organisation. Internal Control consists of five components (1) Control

Environment (2) Risk Assessment (3) Information & Communication (4) Monitoring (5) Control Activities.

The first four components are generally called the broad components of internal control in as much as these are wider and relate to the broad frameworks for internal control whereas control activities are the specific procedures etc. established to achieve identified control objectives of the organization as may emanate from the first four. The broad components can influence effectiveness of control activities.

11.5 External Auditor (i.e. our office) assessing of internal control procedures:

- Determining the significance and the sensitivity of the risk for which controls are being assessed;
- Assessing the susceptibility to misuse of resources, failure to attain objectives regarding ethics ,economy, efficiency and effectiveness, or failure to fulfil accountability obligations, and non compliance with laws and regulations;
- Identifying and understanding the relevant internal controls;
- Determining what is already known about control effectiveness;
- Assessing the adequacy of the control design;
- Determining ,through testing ,if controls are effective;
- Reporting on the internal control assessment and discussing the necessary corrective action.

11.6 Audit Methodology:-

The audit team should consider the nature, scope and focus of their audit objectives to arrive at a conclusion regarding relevance of internal controls to audit. The audit team should examine the internal controls significant to the audit objectives and determine, if specific, internal control procedures have been properly designed and implemented. Based on the effectiveness of internal control the audit team should consider if it needs to modify the nature, timing, or extent of audit. Components of internal control or any weakness therein is significant to an audit's objectives if it is likely to significantly affect the (1) nature and/or presentation of other potential findings and conclusions that may result from carrying out the audit or (2) the auditor's judgments

(either positively or negatively) about the sufficiency, competence, or relevance of planned audit evidence required to satisfy the audit objectives.

The following aspects need emphasis on evaluation of internal controls of an entity:

An internal control audit in an entity within the scope of regularity audit could cover three components i.e. a) assessment of financial reporting; b) operations; and c) compliance. It is essential to ascertain whether the audit assessment extends to all the three aspects or addresses issues. Also, ascertain whether the assessment covers all the five components of internal control as per the CoSO framework.

To form an opinion as to whether control systems provide managers with reasonable assurance that desired organisational outcomes will be achieved, the auditor has to consider the issue of materiality. No control system is perfect or one hundred percent effective whereas an effective control system should always prevent, or detect and correct, material errors, omissions, fraud or other adversities that impact on achieving desired outcomes. The Institute of Internal Auditors, defines materiality as "any condition that has caused, or is likely to cause, errors, omissions, fraud or other adversities of such magnitude as to force senior managers to undertake immediate corrective actions to mitigate the associated business risk and possible consequent damages to the organization". Material weaknesses are persistent if the same problem appeared in prior periods; or the same problem has arisen elsewhere in the organization. Material weaknesses are pervasive if the effects of the problem seriously imperil safeguarding of assets; or the effects of the problem seriously imperil the achievement of operating, reporting or compliance objectives. A condition is "serious" if it has caused, or is likely to cause, errors, omissions, fraud or other adversities that increase business risk and possible consequent damages to the organization, but does not require senior managers to undertake immediate corrective actions to mitigate the associated impact on operations or outcomes.

11.7 Reporting:-

A "reportable condition" means that:

- The problem is serious, but not material; or
- The problem is material but not persistent or pervasive; or

- The problem is material and persistent or pervasive.
- For financial audits (objective above) the reportable conditions may include
 - Absence of appropriate segregation of duties consistent with appropriate control objectives:
- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output;
- Inadequate provisions for the safeguarding of assets;
- Evidence of failure to safeguard assets from loss, damage, or misappropriation;
- Evidence of system failure to provide complete and accurate output consistent with the control objectives of the audited entity due to misapplication of control activities;
- Evidence of intentional override of internal controls by those in authority to the detriment of the overall objectives of the system;
- Evidence of failure to perform tasks that are a significant part of internal control such as reconciliations not prepared or not done on time;
- A weakness in the control environment at an entity such as absence of positive and supportive attitude towards internal control by the management within the organisation;

Deficiencies in the design or operation of internal control that could result in violation of laws, regulations, provisions or contract or grant conditions: fraud; or abuse that has a material effect on the audit objectives or the financial reports;

- Failure to correct deficiencies identified earlier.

Weak internal controls might leads to following types of frauds:-

- 1) Missing assets/inventory;
- 2) Pilfering;
- 3) Inflated travel claim;
- 4) Double payment;
- 5) False claims;
- 6) Payroll fraud.

- For the other objectives the reportable conditions would include any significant deficiencies in the internal control, all acts of fraud and illegal acts

unless absolutely inconsequential, significant violations of provisions of contracts or grant agreements and significant abuse.

- Derive audit conclusion: The audit conclusions flow from and highlight the significance of the audit findings. This would indicate whether the internal controls under audit study are adequate and performing satisfactorily and highlight weaknesses noticed. The assurance with regard to internal controls could be a negative assurance – a statement that nothing came to the auditor’s attention that would indicate inadequate controls.

NOTE: - The Detail checklist for evaluation of internal control issued by CAG office on 22/05/2009 may be referred while conducting such type of audit.

Check list of various Departments

Medical Education and Drug Department / Public Health Department

Hospital side

The main object of local audit is to check the accounts of receipts and stores and stocks of Government Hospitals.

Following records needs to be checked:-

1. Cash Book
2. The Outpatient Register (OPD register)
3. Register of Hospital fees
4. Register of In-patients' property
5. Register of Splint Deposits
6. X- Ray and Screening Register- The X- Ray films consumed should be checked with the stock account of films; Disposal of Waste hypo solutions to see whether proper procedure has been adopted
7. Register of miscellaneous recoveries (Due from staff) – Electric energy charges/water charges, Municipal taxes, loss due to breakage of articles
8. Stock accounts of Diet articles. Quantity of articles of diet agrees with the quantity as per bills of contractors.
9. Register of Medicines and Medical Instruments. Stock account of Sera and Vaccine
10. Stock accounts of linen / Stock Accounts of Surgical Instruments and appliances.
11. Machinery /Equipments / building lying unused
12. Log book of major machinaries

Personal Ledger Account (PLA) is another important record which should be scrutinised thoroughly. Because all OPD receipts are entered in PLA and the Hospital authorities are empowered to utilise these departmental receipt towards emergency expenditure.

College Side

Cash Book

1. Revenue Collection Register- Check amounts received with (a) Counterfoils of receipts,(b) orders of the principal of the college regarding

- finances recovered from students, (c) auction proceedings of unserviceable stores and articles of dead stock
2. Fee Books , catalogues (stock account),etc
 3. Rent Register/ Hostel Account
 4. Bonds – To see whether they are given employment in rural areas. Non fulfilment of bond conditions should result in forfeiting of bond money.
 5. PLA for Library Deposits, Endowment Funds
 6. Salary Account of Teaching and Non Teaching Staff

Home Department

Commissioner of Police/Superintendent of Police - offices

1. Cash Book / Day Book/ Imprest Account
2. Licence Register- check for levy of licence fee for Arms and Ammunitions, Licence under Explosive act, Licence under Petroleum act, Poison Licence, Amusement licence (Premises, Performance), Public land Conveyance Licence
3. Distress warrant register
4. Permanent Advance Register
5. Dead Stock Register/Stock Register/ Stock account of Receipt Books
6. Register of disposal of condemned articles
7. Arms and ammunition stock Register
8. Register of unclaimed cash, Government Promissory and currency notes
9. PLA for the transaction of the interstate property
10. Escort and Guard Charges
11. Bhatta Money Register
12. Lock-up Register
13. Bail Deposit Register

Motor Transport Register

Bills of supplier

Account of Tyres and Tubes

Petrol Coupon Account

Register of Motor Lorries

History sheet of Vehicles

Log book

Forensic labs :- Bill and Receipt Register, Bill Book, Cash Book, Register of Chemicals, Register of consumable Articles , Register of Instruments.

Jails/Prisons (Manufacturing Department/ Maintenance Department)

Cash book / Jail Manufacture Account /Muster Roll

Ledger of Manufactured Articles/Sales Journal

Diet record/ Clothing

Under trial and Prisoners Private cash, Garden Produce/PLA for Canteen, Transactions, Prisoners' Wages.

For Commandant Home Guard and SRPF offices , Same checks applied.

Women and Child Welfare Department

Apart from regular establishment audit i.e. Cash book, major component of Expenditure, Service record, Advances, Drawals/Remittances, Contingent Expenditure and cases of wasteful/avoidable /excess expenditure, **thrust should be given on Implementation of Various Schemes.** Following checks should be applied:-

- a) Whether schemes are being implemented effectively and proper records maintained and reports/returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether Completion Certificate and Utilisation Certificates have been sent for each project or scheme.
- b) Whether beneficiaries under each scheme have been identified and their names kept on records? Whether selection of beneficiary is Judicious?
- c) Has the department kept the accounts of expenditure and details of beneficiaries /agencies? Are these records have been kept up-to date & reconciled.
- d) Whether failure to implement the scheme in accordance with guidelines resulting in misutilisation of funds.
- e) Whether there is any diversion of scheme funds for other works.
- f) Whether follow up of implementation of scheme /end results have been brought on records.
- g) Whether the intended objective (Social Upliftment and Economic Empowerment) have been achieved or not?

Tribal Development Department

Apart from regular establishment audit i.e. Cash book, major component of Expenditure, Service record, Advances, Drawals/Remittances, Contingent Expenditure and cases of wasteful/avoidable /excess expenditure , **thrust should be given on Implementation of Various Schemes.** Following checks should be applied:-

- a) Whether schemes are being implemented effectively and proper records maintained and reports/returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether Completion Certificate and Utilisation Certificates have been sent for each project or scheme.
- b) Whether beneficiaries under each scheme have been identified and their names kept on records? Whether selection of beneficiary is Judicious?
- c) Has the department kept the accounts of expenditure and details of beneficiaries /agencies? Are these records have been kept up-to date & reconciled.
- d) Whether failure to implement the scheme in accordance with guidelines resulting in misutilisation of funds.
- e) Whether there is any diversion of scheme funds for other works.
- f) Whether follow up of implementation of scheme /end results have been brought on records.
- g) Whether the intended objective (Social Upliftment and Economic Empowerment) have been achieved or not?
- h) **Actual physical verification along with Departmental authorities and photographic evidence shall be obtained to strengthen observation .**

School Education and Sports

Apart from regular establishment audit i.e. Cash book, major component of Expenditure, Service record, Advances, Drawals/Remittances, Contingent Expenditure and cases of wasteful/avoidable /excess expenditure, **thrust should be given on Implementation of Various Schemes.** Following checks should be applied:-

- a) Whether schemes are being implemented effectively and proper records maintained and reports/returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether Completion Certificate and Utilisation Certificates have been sent for each project or scheme.

- b) Whether schemes like Kridangan Vikas, Vyayamshala Vikas are being utilised by the beneficiaries (youth) and whether the intended results of facilities so provided have been achieved.
- c) Beneficiaries under each scheme have been identified and their names kept on records? Whether selection of beneficiary is Judicious?
- d) Has the department kept the accounts of expenditure and details of beneficiaries /agencies? Are these records have been kept up-to date & reconciled.
- e) Whether failure to implement the scheme in accordance with guidelines resulting in misutilisation of funds.
- f) Whether there is any diversion of scheme funds for other works.
- g) Whether follow up of implementation of scheme /end results have been brought on records.
- h) **Actual physical verification along with Departmental authorities and photographic evidence shall be obtained to strengthen observation, if any.**

Social Justice and Special Assistance

Apart from regular establishment audit i.e. Cash book, major component of Expenditure, Service record, Advances, Drawals/Remittances, Contingent Expenditure and cases of wasteful/avoidable /excess expenditure, **thrust should be given on Implementation of Various Schemes.** Following checks should be applied:-

Whether schemes are being implemented effectively and proper records maintained and reports/returns submitted in accordance with the scheme guidelines and prescribed procedures. Whether Completion Certificate and Utilisation Certificates have been sent for each project or scheme.

- a) Whether beneficiaries under each scheme have been identified and their names kept on records? Whether selection of beneficiary is Judicious?
- b) Has the department kept the accounts of expenditure and details of beneficiaries /agencies? Are these records have been kept up-to date & reconciled.
- c) Whether failure to implement the scheme in accordance with guidelines resulting in misutilisation of funds.
- d) Whether there is any diversion of scheme funds for other works.

- e) Whether follow up of implementation of scheme /end results have been brought on records.
- f) Whether the intended objective (Social Upliftment and Economic Empowerment) have been achieved or not?
- g) **Actual physical verification along with Departmental authorities and photographic evidence shall be obtained to strengthen observation.**

APPENDIX-I

List of registers and forms used in the OAD (HQ)

A-Registers

01. Calendar of Returns;
02. Register for watching the Receipts and Issue of IRs;
03. Register showing offices on the local Audit Programme;
04. Casual Leave Register;
05. Attendance registers of OAD sections as well as field staff;
06. Transit Registers for letters transferred to other Sections;
07. Register of books in Head Office;
08. Monthly Arrears Report;
09. Objection book;
10. Adjustment Register;
11. DO letter diary;
12. Govt. letter diary;
13. Hindi letter Diary;
14. Confidential letter diary;
15. Ordinary letter diary;
16. TA Bill Diary;
17. Telegram/FAX Diary;
18. AG/ DAG Diary;
19. CAG Diary;
20. SM Diary;
21. IR Diary;
22. Dak Monitoring Diary;
23. Paper clipping Diary;
24. Duty list Register;
25. Consolidation Register;
26. Tour Diary Register;
27. Tour Advance Register;
28. Issue Diary;
29. Register of duties;
30. Objection book;
31. Data bank Register;
32. Register of settlement of paras.

B-FORMS

1. Intimation to auditee units regarding audit of an institution;
2. Forwarding Memorandum of Draft IR to headquarters office;
3. Abstract of weekly tour diary;
4. Title Sheet;
5. Questionnaires;
6. Annexure of ethics;
7. AM & IR of PLA/CDS;
8. Ranking of IR paras;
9. Tour Advance;
10. TA Bill;
11. Earned Leave Application;
12. Payment Authority;
13. IT information from auditee units;

APPENDIX-II

Destruction of records

The records of the OAD Wing are prescribed for the period shown below:-

1. Spare copies of Government orders- Permanently.
2. Un-official reference- Permanently.
3. Correspondence with the offices inspected on IR- Five years
4. Weekly diary of auditors- Three years
5. File of miscellaneous papers-Three years.

Note: - A clerk is specially deputed every year for weeding out the old records. The list of all such records as are weeded out is approved by the Group Officer before these are destroyed.

Appendix-III
Calendar of Returns

MONTHLY

Sr. No.	Name of the return	To whom due	When due	Authority
DAILY				
01.	Attendance Register	Sr. A.O.	Daily	MOP 2.04
WEEKLY				
02.	Calendar of returns	Sr. A.O.	Every Monday	MOP 6.01 to 6.07
03.	Govt. letter diary	Sr. A.O.	Every Monday	MOP 5.01
04.	Ordinary letter diary	Sr. A.O.	Every Monday	MOP 5.01
05.	TA Bill Diary	Sr. A.O.	Every Monday	
06.	SM Diary	Sr. A.O.	Every Monday	MOP 5.16
07.	Telegram/ FAX Diary	Sr. A.O.	Every Monday	MOP 5.13
08.	AG/CAG Diary	Sr. A.O.	Every Monday	MOP 5.27
09.	DO Diary	Sr. A.O.	Every Monday	
10.	Paper clipping Diary	Sr. A.O.	Every Monday	
11.	Hindi letter Diary	Sr. A.O.	Every Monday	
12.	Confidential Diary	Sr. A.O.	Every Monday	MOP 5.17
13.	IR Diary	Sr. A.O.	Every Monday	
14.	Monthly Arrears Report	Dy. AG	Every Monday	MOP 6.10
MONTHLY				
15.	Register of duties	Sr. A.O.	5 th of every month	TM/2014 dtd.20.03.1964
16.	Objection book	Dy. AG	1 st Monday	DAG order dated 21.01.2011
17.	Data bank Register	Dy. AG	10 th of every month	
18.	Event report	Admin section	5 th of every month	
19.	Calendar of returns	Dy. AG	1 st Monday	TM OO 08 dtd.15.06.1992
20.	Register of settlement of paras	Dy. AG	10 th of every month	AG Secretaries circular 73 dated 23.07.2011

21.	Register of monthly performance of field officers	Dy. AG	10 th of every month	
22.	Register of tour diaries	D AG/ES	10 th of every month	
23.	IR Watching register	Dy. AG	1 st Monday	
24.	Register showing units selected	AG	First week	Minutes of meeting dated 30.06.2014
25.	Monthly performance report	ITAW	10 th of every month	ITAW circular dated 11.03.2016
QUARTERLY				
26.	Register of settlement of paras	AG		AG Secretaries circular 73 dated 23.07.2011
27.	Pending IR Paras	Coordination section	10 th of April, July, October, January	Coordination section letter dated 29.02.2014
28.	Quarterly progress report	Coordination section	15 th of April, July, October, January	Coordination section letter dated 13.07.2012
29.	Units voucher audited	Coordination section	15 th of April, July, October, January	
30.	Audit bulletin	Coordination section	5 th of April, July, October, January	
31.	Pending of IR/ Paras	Coordination section	10 th of April, July, October, January	Coordination section letter dated 29.02.2014
32.	In-house training	Coordination section	5 th of April, July, October, January	
33.	Director of Inspection	Sr. AO/ ITAW	8 th of April, July, October, January	

HALF YEARLY				
34.	Fraud & Corruption	Sr. AO/ Coordination	10 th of April, October	Coordination section circular dated 23.07.2000
35.	Statistical sampling	Sr. AO/ Coordination	5 th of April, October	Coordination section circular dated 23.07.2010
36.	Digest of important and interesting cases noticed in audit	Sr. AO/ Coordination	5 th of April, October	
37.	Progress report of IAP	Sr. AO/ Coordination	5 ^h of April, October	
YEARLY				
38.	Performance report of Audit Officer	Sr. AO/ Coordination	10 th July	Coordination 07/2003
39.	Propriety Audit to CAG Act Cell	Sr. AO/ CAG Act Cell	10 th April	Para 2(ii) of HQrs letter 369 dated 17.03.1992
40.	Outstanding IR/Paras. Department and category wise information.	Report Section	3 rd July	Circular No.NGP/REP/AR 08-09
41.	Position of IR/ Paras issued up to December and outstanding as on 30 th June	Report Section	30 th June	Circular No.NGP/REP/AR 08-09
42.	Audit Plan	Sr. AO/ Coordination	10 th January	

APPENDIX -IV

List of Departments and offices under General and Social Sector –II

Sector	U/S	Department	Offices under the Department
General	13	Finance	Dy. Chief Auditor (Local fund)
General	13	General Administration	Dy. District Election Officer
			District Information Officer
			District Sainik Welfare Officer
			Divisional Assistant Director of Languages
General	13	Planning	Dy. Dir. of Economics and Statistics
			District Statistical Officer
General	13	Home	Commissioner of Police
			Superintendent of Police
			Commandant, SRPF
			Superintendent ,District Prison
			Commandant, Home Guard
General	13	Law and Judiciary	Assistant Charity Commissioner
			All Judges
			Member Secretary, The District Advisory Committee
Social	13 15	Women and Child Welfare	District Women and Child Development Officer
			Child Development Project Officer
			Superintendent, Government Centre for Physically Handicapped Children
Social	13 15	Tribal Development	Additional Tribal commissioner
			Project Officer, Integrated Tribal Development Officer
			Warden, Government Hostels
			Head Master , Ashram Schools
Social	13 15	Revenue and Forest	Collector
			Special Land Acquisition Officers /SDO
Social	13	Employment and Self Employment	Deputy Director, Divisional Employment Centre
			District Employment Officer
Social	13	Food, Civil Supplies and Consumer Protection	Assistant Controller of Legal Metrology
			Registrar Consumer Disputer Redressal Forum

Social	13	Higher and Technical Education	Universities
			Joint Director of Higher Education
			Principal, Government College of Engineering
			District Vocational Education Training Officer
			Government Polytechnics
			Principal, Government college of Education
		Skill Development and Entrepreneurship Department	Industrial Training Institutes
			Head Master, Government Technical High School
Social	13	Medical Education and Drugs	Dean, Government College and Hospital
			Assistant Commissioner, Food and Drugs
Social	13	Public Health	Malaria Officer
			Filaria Officer
			Cottage /Rural Hospitals
Social	13	School Education and Sports	Superintendant Pay and Provident Fund Unit (Primary and Secondary)
			District Sport Officer
			Commanding Officer, NCC
Social	13 15	Social Justice and Special Assistance	Divisional Social Welfare Officer
			Assistant Commissioner Welfare Officer
			Warden, Government Hostels
Social	13	Urban Development	Deputy Director of Town Planning
			District Town Planner
Social	13	Water Supply and Sanitation	Deputy Director GSDA
			Senior Geologist GSDA
Social	14	Grant-In-Aid	Educational Institutes
Social	13	Minority Development Department	All revenue offices

Districts under jurisdiction of G&SS wing:-

Vidarbha: - Nagpur, Bhandara, Gondia, Wardha , Chandrapur ,

Gadchiroli Washim, Buldhana, Akola, Amravati, Yavatmal

Marathwada: - Aurangabad, Beed, Osmanabad, Latur, Nanded,

Parbhani, Hingoli, Jalna.

APPENDIX - V

Major Departments and various schemes implemented under them:-

Social Justice and Special Assistance Department

Sr. No.	Name of Scheme	Major / Sub Head
1.	Social Justice Directorate (Pay & Allowances)	2225- 0092
2.	Special Scheme of S.C. for (Pay & Allowances)	2225- 0109
3.	Maintenance of Govt. Hostel for S.C. Girls/Boys.	2225-0281
4.	G.O.I. Post Metric Scholarship (State)	2225- 0352
5.	Education Fee/ Exam. Fee Post Metric	2225- 0388
6.	Maintenance Allowance to Military School Students	2225- 0397
7.	Maintenance Allowance to Vocational Educational B.C. student in Hostels	2225- 0412
8.	Starting & Maintenance of Govt. Hostels for OBC Boys/Girls (Salary)	2225- 0913
9.	Grant Social Work College (Salary)	2235-1503-36
10.	Grant Social Work College (Non Salary)	2235-1503-31
11.	Civil Rights Scheme- (Pay & Allowances) State	2225-0163-31
12.	Civil Rights Scheme- (Pay & Allowances) State	2225-0163-50
13.	Civil Rights Scheme- (Pay & Allowances) Central	2225-0172-31
14.	Civil Rights Scheme- (Pay & Allowances) Central	2225-0172-50
15.	Maintenance of Govt. Hostel for S.C. Girls/Boys.	2225- 3342
16.	GOI Post Metric Scholarship (SC)	2225- 0495-34
17.	Education Fee/ Exam. Fee Post Metric	2225- 3805
18.	Maintenance Allowance To Military School Students	2225- 0459
19.	Maint. Allow. To Vocational Students B.C.student in Hostels	2225- 0477
20.	Library for Medical, Engineering, Vocational etc. Students (State)	2225- 0557
21.	Library for Medical, Engineering, Vocational etc. Students (Central)	2225- 0566
22.	Financial Aid to Family member of Atrocities of S.C & S.T. (State)	2225- 2442
23.	Financial Aid to Family member of Atrocities of S.C & S.T. (Central)	2225- 2451
24.	Computerizations	2225- 2335-10
25.	Award for 10 th & 12 th Merit students of S.C. VJNT	2225-3262-12/1
26.	Rajashri Shahu Maharaj Merit Scholarship for 10 th Merit students of S.C. Girls/Boys.	2225- 3814-12/4
27.	Birthday Celebration of Rajashri Shahu Maharaj	2225- 3313-18
28.	KanyandanYojana (S.C.)	2225- 3538-29
29.	KanyandanYojana (VJNT)	2225- 3547-22
30.	Directorate & Administrative – Contract service	2225-3476-10
31.	Directorate & Administrative – O.E.	2225-3476-13
32.	Maintenance of Govt. Residence Ashram School for S.C./S.T. Boys/Girls	2225-D117
33.	Salary Grant to Ashram Schools of Middle / Primary (VJNT,	2225- 0753-36

	OBC & SBC)	
34.	Maintenance Grant to Primary Ashram Schools (VJNT, OBC & SBC)	2225-0753-31
35.	G.O.I. Scholarship (VJNT)	2225- 0771
36.	Post Metric Scholarship to SBC	2225- 2596
37.	Post Metric Scholarship to OBC	2225- 3574
38.	Education Fee/ Exam. Fee (VJNT)	2225- 0806
39.	Maintenance Allow. To Vocational Education Student (VJNT, OBC &SBC)	2225- 2237
40.	Stay fund to I.T.I. Student	2225- 0791
41.	Maint. Allow. to Military School Students	2225- 0815
42.	G.O.I. Scholarship to OBC	2225- 3144
43.	Education Fee/ Exam. Fee to OBC	2225- 3233
44.	Merit Scholarship to VJNT, OBC & SBC	2225- 3191
45.	Savitribai Fule Scholarship to VJNT/SBC/OBC	2225- 3182
46.	Scholarship to Military School Students	2225- 0862
47.	TandaVasti Sudhar Yojana	2225- 3322
48.	G.O.I. Scholarship to SBC, VJNT Student	2225- A/323
49.	Stay fund to I.T.I. Student of VJNT, SBC, OBC	0842-A/341
50.	Stay fund to Vocational Student in the Hostel of VJNT, SBC, OBC	0871-A/379
51.	Education Fee/ Exam. Fee to VJNT, SBC, OBC Student	3342-C/433

Tribal Development Department

Major Head	Scheme
2225-1043	Monitoring & Evaluation (Project Officer)
2225-1072	Opening & Maintenance of Govt. Hostel
2225-1232	Ashram Shala complex
2225-1268	Grant in Aid Ashram Shala
2225-2658	Grampanchayat/Member Training Programme
2225-3502	Kanyadan Scheme
2225-3529	Assistance for Fee to Tribal for Doctor/Ayurvedic Doctor
2225-3556	Central assistance Ekatmik Yojna
2225-4113	Information & Publicity
2225-C 578	Scholarship to Students taking education in Sainik School
2225-C 894/892	Govt. of India Scholarship
2225-C 902/907	Govt. of India Scholarship
2225-C 999	To impart education to Tribal students in local English Medium
2225-D-037	Suwarn Mahotsavi Scholarship
2225-D-126	Development of Pardhi Samaj Scheme
2225-D-262/272	Tribal Boys/Girls Skill Development Scheme
2230-0755	Training before placement in Police
2225-1606	Self Help Institute Grant (District)
2225-1615	Self Help Institute Grant(District)

2225-2201	Stipend
2225-2112	Self Help Institute Grant (District)
2225-2021	Self Help Institute Grant (District)
2225-3627	Thakkar Bapa
2225-3912	PVC Pipe Supply
2225-1464	Oil Engine Supply
2225-4004	PVC Pipe Supply
2225-3941	Jr. college scholarship
2225-4024	Jr. college scholarship
2049-2041	GPF Interest
2225-1831	Shikshan Fee & pariksha Fee
2225-1956	Govt Hostel
2225-2012	Shikshan Fee & pariksha Fee

Women and Child Development Department

Mahila Bahuuddeshia Kendra
Balsangopan
Abolition to Dowry System
Mahila Samupdeshan Kendra
Shubhmangal Samuhik Vivah
Manodharya scheme
Vivah Bhatta
Vidyavetan (stipend)

Sports Department

1	Kridangan Vikas
2	Vyamshala Vikas
3	Youth Welfare
4	Samajseva Shibir

APPENDIX VI

Important paras appeared in C&AG's Audit Report under G&SS during last ten years :-

Sr.no	Name of Department	Para no./year	Description of para
1	Higher and Technical Education Department	4.2.2/2006-07	Short recovery of licence fees on Government Quarters:- Short recovery due to non revision of licence fees in respect of quarters allotted to teaching and non teaching staff.
2	Home Department	4.3.6/ 2006-07	Avoidable expenditure on surcharge due to delay in payment of water charges
3	Medical Education and Drugs Department	4.3.8/ 2006-07	Avoidable expenditure due to delay in payments of bills :-Failure of the Government to provide funds for payment of Electricity bills led to avoidable payment of interest and delayed payment charges.
4	Home Department	4.4.2 / 2006-07	Blockage of funds :- Cloth for stitching fatigue caps for police constables was supplied/ ordered in excess without considering the previous stock and the trend of utilisation resulted in stock lying idle.
5	Public Health Department	4.4.2 / 2006-07	Idle investment of a scan unit for want of operator :- In absence of trained operator, the computerised Tomography Scan unit could not be put to use.
6	Public Health Department	4.4.5 / 2006-07	Unfruitful expenditure on procurement of equipment and recruitment of supporting staff without filling up the post of Specialist /Doctors resulted in non operation of Regional Referral Services and denial of specialised medical services
7	Home Department	4.1.1 / 2007-08	Misappropriation of Government money :- Mismanagement of Government receipts and irregular maintenance of cash book resulted in misappropriation of Government money.

8	Water Supply and Sanitation Department	4.2.12 / 2007-08	Loss of interest :- Non Depositing money received under the scheme in Saving Bank Account resulted in loss of interest
9	School Education and Sports Department	4.5.3 / 2007-08	Irregular financial assistance to private institution :- Overruling government guiding principles assistance of two crores made to private institution which had conducted Tennis Tournament with the sponsorship of private business groups.
10	Planning Department	3.2.2 / 2008-09	Disallowed Expenditure :- Sanction of funds under MPLAD to the institution for college building by the Member of Parliament whose relative is trustee of college.
11	Higher and Technical Education	3.4.1 / 2008-09	Blocking of Fund :- Sanction and allocation of funds to education institute for synthetic Track lying idle over a period of five years due to wrong selection of site and time spent on selection of site.
12	Law and Judiciary Department	3.4.5 / 2008-09	Unfruitful Expenditure on Franking Machine :- Failure to repair substandard Franking Machines ,non receipt of permit from Postal Department and non trained staff to operate same resulted in idling of Machine over a period of three to five years.
13	Higher and Technical Education Department	3.2.2 / 2010-11	Inadequate provision to penalise defaulting institutions :- Inadequacy in the provisions made by the Higher and Technical Education Department, Government of Maharashtra had given an opportunity for defaulting educational institutions to accept excess intake of students on multiple occasions. As a result penalty recoverable from the defaulting institutions had not been recovered
14	Home Department	3.3.1 / 2010-11	Undue favour to supplier :- Releasing of full payment prior to delivery of bomb suits resulted in

			undue favour to supplier , there by jeopardising the security preparedness of the state
15	Medical Education and Drug Department	3.3.2 / 2012-13	Idling of hospital equipment :- Failure to synchronise the procurement of hospital equipment with the civil construction works of new hospital building led to idling of hospital equipment over prolonged period.
16	Medical Education and Drug Department	3.3.3 / 2012-13	Idling of an equipment :- Non deployment of full time permanent manpower at hospital resulted in the Brach therapy unit purchased at a cost of Rs.1.12 crore for treatment of patient suffering from cervical cancer remaining idle for 45 months.
17	School Education and Sports Department	3.3.4 / 2012-13	Nugatory expenditure :- School Education and Sports Department failed to utilised the services of surplus teachers against the vacancies , resulting in nugatory expenditure of Rs.10.34 crore towards payment of salarie
18	Medical Education and Drugs Department	3.4/ 2012-13	Avoidable Expenditure :- Failure of Government hospital to install capacitor to maintain power factor resulted in avoidable expenditure on penal charges.
19	Public Health Department	3.2 / 2014-15	Misappropriation of Government Money:- Failure of Medical Superintendent , Sub District Hospital ,Udgir ,Latur to credit the daily receipts of OPD fees and other charges collected from the patients into Government account resulted in misappropriation of Rs. 33.87 lakhs.
20	Medical Education and Drugs Department	3.5 / 2014-15	Avoidable payment of interest :- Failure of Dean, (Swami Ramanand Teerth Rural Medical College and Hospital, Ambajogai) in placing the demand for additional grant in time vis .a vis delay in released of grant by DMER resulted in avoidable payment of interest of

			Rs. 1.20 crore on arrears.
21	Social Justice and Special Assistance Department	3.4 / 2015-16	Misappropriation of Government Fund :- Social Justice and Special Assistance Department without due diligence approved a proposal of a cooperative Society for establishment of a wheat processing unit at Yavatmal and released financial assistance of Rs. One crore, which was misappropriated.
22	Public Health Department	3.5 / 2015-16	Idling of Newly Constructed Hospital and Unfruitful Expenditure:- Poor planning by Public Health Department led to idling of an 200- bedded Geriatric Health and Mental illness Centre at Ambejogai in Beed district for 57 months and rendered an expenditure of Rs. 19.21 crore incurred on its construction unfruitful
23	Skill Development and Entrepreneurship Department	3.8 / 2015-16	Unfruitful Expenditure :- The Skill Development and Entrepreneurship Department did not assess the requirement for construction of a boys hostel at ITI, Chandur Railway ,Amravati leading to an unfruitful expenditure
24	Skill Development and Entrepreneurship Department	3.10/2015-16	Unfruitful Expenditure on e-vidya Project :- Failure of District Collector , Gadchiroli and District Vocational Education and Training Officer , Gadchiroli to exercise due diligence in implementation of e-Vidya Project rendered an expenditure of Rs. 1.06 crore unfruitful .